Open Joint Stock Company “Magnit” and its subsidiaries

Independent Auditor’s Report

Condensed Consolidated Interim Financial Statements
Six Months Period Ended June 30, 2008
(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, 2008

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, 2008 and the results of its operations, changes in equity and cash flows for the six months period then ended, in compliance with IAS 34.

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, 2008 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 August 22, 2008 by:

Sergey Galitskiy
Chief Executive Officer

Khachatur Pombukhchan
Chief Financial Officer

August 22, 2008
Moscow, Russia

Deloitte.

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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of OJSC "Magnit":

We have reviewed the accompanying interim condensed consolidated balance sheet of OJSC "Magnit" and subsidiaries (collectively – the "Group") as of 30 June 2008 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte & Touche

August 22, 2008

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2008
(In thousands of US Dollars)

	Notes	6 months 2008 (unaudited)	6 months 2007 (unaudited)
REVENUE	6	2,469,895	1,638,231
COST OF SALES	7	(1,954,833)	(1,329,826)
GROSS PROFIT		515,062	308,405
Selling expenses	8	(22,138)	(12,817)
General and administrative expenses	9	(379,821)	(236,827)
Investment income		2,490	1,905
Finance costs		(29,306)	(13,105)
Other income		6,502	865
Other expenses		(1,798)	(793)
		(424,071)	(260,772)
PROFIT BEFORE TAX		90,991	47,633
INCOME TAX	10	(25,065)	(10,035)
PROFIT FOR THE PERIOD		65,926	37,598
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		65,645	37,519
MINORITY INTEREST		281	79
Basic earnings per share (in US Dollars per share)	11	0.85	0.52

The notes on pages 7 to 31 form an integral part of these condensed consolidated interim financial statements.

Signed on behalf of the Board:

Sergey Galitskiy
Chief Executive Officer

August 22, 2008

Khachatur Pombukhchan
Chief Financial Officer

August 22, 2008

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AT JUNE 30, 2008
(In thousands of US Dollars)

	Notes	June 30, 2008 (unaudited)	December 31, 2007 (audited)
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	1,433,312	1,074,248
Intangible assets	13	1,985	1,103
Long-term investments		39	227
		1,435,336	1,075,578
CURRENT ASSETS:			
Merchandise	14	355,191	330,409
Trade accounts receivable	15	1,732	2,415
Advances paid	16	34,551	49,423
Other receivables	17	31,529	25,877
Prepaid expenses		3,032	2,454
Short-term investments	18	54,855	12,787
Other current assets		84	118
Cash and cash equivalents	19	74,867	120,959
		555,841	544,442
TOTAL ASSETS		**1,991,177**	**1,620,020**
EQUITY AND LIABILITIES			
Share capital	20	30	26
Share premium	20	646,015	179,427
Foreign currency translation reserve		60,602	41,103
Retained earnings		272,050	206,405
Equity attributable to equity holders of the parent		978,697	426,961
Minority interest		1,667	1,386
TOTAL EQUITY		980,364	428,347
NON-CURRENT LIABILITIES:			
Long-term loans and bonds	21	163,935	160,780
Long-term obligations under finance leases	22	43,237	22,664
Deferred tax liabilities		19,268	15,811
		226,440	199,255
CURRENT LIABILITIES:			
Trade accounts payable	23	463,388	437,643
Other payables and accrued expenses	24	77,326	42,812
Income tax payable		3,540	2,773
Short-term obligations under finance leases	22	21,886	13,143
Short-term loans	25	218,233	496,047
		784,373	992,418
TOTAL EQUITY AND LIABILITIES		**1,991,177**	**1,620,020**

The notes on pages 7 to 31 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2008

(In thousands of US Dollars)

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Equity attributable to share-holders of the parent	Minority interest	Total
Balance at January 01, 2007 (audited)	**26**	**179,427**	**15,385**	**109,856**	**304,694**	**545**	**305,239**
Profit for the period	-	-	-	37,519	37,519	79	37,598
Currency translation differences	-	-	4,903	-	4,903	11	4,914
Balance at June 30, 2007 (unaudited)	**26**	**179,427**	**20,288**	**147,375**	**347,116**	**635**	**347,751**
Balance at January 01, 2008 (audited)	**26**	**179,427**	**41,103**	**206,405**	**426,961**	**1,386**	**428,347**
Additional issue of shares	4	466,588	-	-	466,592	-	466,592
Profit for the period	-	-	-	65,645	65,645	281	65,926
Currency translation differences	-	-	19,499	-	19,499	-	19,499
Balance at June 30, 2008 (unaudited)	**30**	**646,015**	**60,602**	**272,050**	**978,697**	**1,667**	**980,364**

The notes on pages 7 to 31 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2008
(In thousands of US Dollars)

	Notes	6 months 2008 (unaudited)	6 months 2007 (unaudited)
OPERATING ACTIVITIES:			
Profit before tax		90,991	47,633
Adjustments for:			
Depreciation		39,235	23,830
Amortization		520	167
Loss on disposal of property, plant and equipment		809	151
Change in provision for doubtful receivables		(144)	778
Finance costs, net		26,816	11,200
Operating cash flow before movements in working capital		158,227	83,759
Decrease in receivables		827	999
Decrease in advances paid		14,872	2,291
Increase in other receivables		(5,652)	(13,493)
(Increase)/decrease in prepaid expenses		(578)	1,114
Increase in inventory		(24,782)	(9,018)
Increase/(decrease) in trade accounts payable		25,745	(13,054)
Increase in other payables and accrued expenses		34,514	31,854
Increase/(decrease) in income tax payable		767	(3,157)
Cash generated by operations		203,940	81,295
Income tax paid		(21,630)	(15,149)
Interest paid		(28,991)	(10,830)
Net cash generated by operating activities		153,319	55,316
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(304,484)	(254,904)
Purchase of intangible assets		(1,338)	(403)
Proceeds from disposal of property, plant and equipment		1,182	5,474
Purchase of investments		(45,450)	(14,323)
Proceeds from sale of investments		3,570	14,952
Net cash used in investing activities		(346,520)	(249,204)
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		666,597	632,930
Repayment of short-term borrowings		(980,839)	(491,470)
Repayment of obligations under finance leases		(8,795)	(4,707)
Proceeds from issue of shares		466,592	-
Net cash generated by financing activities		143,555	136,753
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		3,554	4,305
NET DECREASE IN CASH AND CASH EQUIVALENTS		(46,092)	(52,830)
CASH AND CASH EQUIVALENTS, beginning of the period	19	120,959	89,789
CASH AND CASH EQUIVALENTS, end of the period	19	74,867	36,959

The notes on pages 7 to 31 form an integral part of these condensed consolidated interim financial statements.

(In thousands of US Dollars)

1. NATURE OF THE BUSINESS

Close Joint Stock Company Magnit ("Magnit") was incorporated in Krasnodar, Russian Federation, in November 2003. In 2005, Magnit's shareholders completed a group reorganization whereby Magnit became the holding company of a group of previously commonly controlled retail entities, CJSC "Tander" and its subsidiaries ("Tander").

In January 2006 Magnit 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 the change to an Open Joint Stock Company.

OJSC "Magnit" and its subsidiaries (the "Group") operate in the retail and distribution of consumer goods under the "Magnit" name. The group operates in the retail and wholesale sectors. However, the volume of wholesale activities has decreased and the Group intends to cease its wholesale operations in the near term.

The principal retail business operations are carried out through Tander. All of the Group's operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/2 Solnechnaya St., 350002 Krasnodar, Russian Federation.

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

Company name	Principal Activity	Ownership Interest June 30, 2008	Ownership Interest December 31, 2007
CJSC "Tander"	Food retail and wholesale	100%	100%
LLC "Magnit Finance"	Issuer of the Group's bonds	100%	100%
LLC "BestTorg"	Food retail in the city of Moscow and the Moscow region	100%	100%
LLC "Tander-Magnit"	Food retail in the Moscow region	100%	100%
LLC "Selta"	Transportation services for the Group	100%	100%
LLC "Project M"	Food retail in Saint-Petersburg	100%	100%
LLC "Magnit-Nizhniy Novgorod"	Holding company of LLC "Tandem"	51%	51%
LLC "Tandem"	Food retail in Nizhniy Novgorod	51%	51%
LLC "Alkotrading"	License holder for alcohol sales	100%	100%

At June 30, 2008 and December, 31 2007 the shareholding structure of the Company was as follows:

	June 30, 2008		December 31, 2007	
Shareholder	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Galitski S.N.	36,679,000	44,06%	36,720,000	51.00%
Labini Investments Ltd. (Cyprus)	6,950,490	8,35%	7,402,611	10.28%
Lavreno Ltd. (Cyprus)	4,983,964	5,99%	5,160,364	7.17%
Gordeichuk V.E.	2,999,100	3,6%	2,999,100	4.17%
Other (Group's management)	2,096,746	2,52%	2,238,450	3.11%
Free float	29,536,360	35,48%	17,479,475	24.27%
Total	**83,245,660**	**100%**	**72,000,000**	**100%**

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, 2008.

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**
IAS 23 (Revised) "Borrowing Costs"	January 1, 2009
IFRS 3 (Revised) "Business Combinations"	January 1, 2009
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"	March 1, 2007
IFRS 8 "Operating Segments"	January 1, 2009
IFRIC 12 "Service Concession Arrangements"	January 1, 2008
IFRIC 13 "Customer Loyalty Programs"	July 1, 2008
IFRIC 14 IAS 19 – The Limit on a defined Benefit Asset, Minimum Funding Requirements and their interaction	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.

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, 2008 and June 30, 2007. The Group does not have any potentially dilutive equity instruments.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation – The condensed consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Company (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.

Any gain or loss on the acquisition of shares in subsidiaries from parties related by the means of common control, representing the difference between the cost of the acquisition and the Group's interest in the 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 from third parties 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 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, 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.

Common Control Transactions – Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Company. The consolidated historical financial statements of the Group are retrospectively restated to reflect the effect of the acquisition as if it occurred during the period in which the entities were under common control. Any difference between the purchase price and the net assets acquired is reflected in equity.

Disposal of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the disposed entity not combined with that of the Company. The consolidated historical financial statements of the Group are retrospectively restated to reflect the effect of the disposal as if it occurred during the period in which the entities were under common control. Any difference between the proceeds received from the disposal and the net assets disposed of is reflected in equity.

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 assets and liabilities of associates are incorporated in the consolidated 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 the accounting policy for Financial Assets set out below. 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 forms 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 entity transacts with an 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 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. Retail sales are in cash. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

Property, Plant and Equipment – Property, plant and equipment is stated at cost less accumulated depreciation.

Historical cost information was not available in relation to buildings purchased prior to January 1, 2004. Therefore, 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 and deemed those values as cost. 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. Some of the property, plant and equipment are of a specialized nature and their fair values were considered to approximate their depreciated replacement cost. Depreciated replacement cost is estimated based on the property's current replacement cost adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence.

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.

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	3-14
Other fixed assets	3-5

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 recoverable 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.

Lease 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, lease 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 lease rights and other intangible assets is charged to income statement on a straight-line basis over their estimated useful lives.

The following useful lives are used in the calculation of amortisation:

Description	**Useful life, years**
Licenses	3
Lease rights	9
Software	2
Trade mark	9
Other	2

Impairment of Tangible 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 (cash generating unit) 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 (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement. 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 (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 as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the 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.

Merchandise – Merchandise is 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. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and are recognised in cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned. Marketing contributions received from suppliers are credited to the income statement as a reduction to the cost of goods sold in the period in which they are earned.

Income Taxes – Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of the countries where the Group operates. The tax currently payable is based on taxable profit for the year. 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 financial statements and the corresponding tax bases used in the computation of taxable profit, and is 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 consolidated 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 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 consolidated financial statements of the Group as one reportable segment.

Borrowing Costs – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are recognised in profit or loss in the period in which they are incurred, as well as all other borrowing costs.

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.

AFS Financial Assets **–** Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 33. Gains and losses arising from changes in fair value are recognised directly in equity in the investment revaluation reserve with the exception of impairment losses, interest is calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

For AFS investments for which there are no reliable market information to determine fair value, the investments are carried at cost.

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.

Derecognition of Financial Assets – The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

Financial Liabilities at FVTPL – Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if it has been incurred principally for the purpose of repurchasing 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 liability other than a financial liability 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 liability 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 Financial Instruments.

Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 33.

Other Financial Liabilities **–** Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are 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.

Derecognition of Financial Liabilities – The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

Useful economic life of property, plant and equipment

The Group's property, plant and equipment, are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

Changes in the useful economic life of property, plant and equipment will be recognized prospectively in the income statement.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products. A critical assumption within the Group's cash flow model is that the rapid growth in the Russian economy will continue leading to increases in real disposal income and wages that are consistent with those experienced in the last three years. No improvements in operating margins or working capital are assumed.

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

Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether it is probable additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

6. REVENUE

Revenue for the six months ended June 30, 2008 and June 30, 2007 consisted of the following:

	6 months 2008 (unaudited)	**6 months 2007 (unaudited)**
Retail	2,456,935	1,622,537
Wholesale	12,960	15,694
Total	**2,469,895**	**1,638,231**

7. COST OF SALES

Cost of sales, classified by function, for the six months ended June 30, 2008 and June 30, 2007 consisted of the following:

	6 months 2008 (unaudited)	6 months 2007 (unaudited)
Retail	1,942,635	1,314,801
Wholesale	12,198	15,025
Total	**1,954,833**	**1,329,826**

Cost of sales, classified by nature, for the six months ended June 30, 2008 and June 30, 2007 consisted of the following:

	6 months 2008 (unaudited)	6 months 2007 (unaudited)
Cost of goods sold	1,989,860	1,323,268
Transportation expenses	38,777	27,459
Losses due to inventory shortages	11,505	7,898
Rebates and promotional bonuses received from suppliers	(85,309)	(28,799)
Total	**1,954,833**	**1,329,826**

8. SELLING EXPENSES

Selling expenses for the six months ended June 30, 2008 and June 30, 2007 consisted of the following:

	6 months 2008 (unaudited)	6 months 2007 (unaudited)
Depreciation	8,217	3,761
Packaging and raw materials	7,073	5,311
Advertising	3,330	590
Fuel	2,397	1,709
Transportation	1,121	1,446
Total	**22,138**	**12,817**

9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative for the six months ended June 30, 2008 and June 30, 2007 consisted of the following:

	6 months 2008 (unaudited)	6 months 2007 (unaudited)
Payroll	174,694	105,395
Rent and utilities	90,680	62,152
Payroll related taxes	43,400	26,636
Depreciation	31,018	20,070
Taxes, other than income tax	8,999	3,092
Repairs and maintenance	7,529	3,055
Bank services	5,082	3,165
Security	3,393	2,641
Provision for unused vacations	2,601	1,655
(Reversal of)/Bad debt provision	(144)	778
Other expenses	12,569	8,188
Total	**379,821**	**236,827**

10. INCOME TAX

The Group's provision for income tax for the six months ended June 30, 2008 and June 30, 2007 is as follows:

	6 months 2008 (unaudited)	6 months 2007 (unaudited)
Current tax	22,397	11,540
Deferred tax	2,668	(1,505)
Total income tax expense	**25,065**	**10,035**

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

11. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share for the six months period ended June 30, 2008 and June 30, 2007 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, 2008 and June 30, 2007.

The calculation of earnings per common share for the six months ended June 30, 2008 and June 30, 2007 was as follows:

	6 months 2008 (unaudited)	6 months 2007 (unaudited)
Profit for the period attributable to equity holders of the parent (in thousand of US Dollars)	65,645	37,519
Weighted average number of shares (in thousand of shares)	77,361	72,000
Basic earnings per share (in US Dollars)	**0.85**	**0.52**
Diluted earnings per share (in US Dollars)	**0.85**	**0.52**

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2008 and December 31, 2007 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Con-struction in progress	Equipment under finance lease	Total
Cost							
At January 1, 2007 (audited)	2,958	157,874	151,523	34,636	150,431	26,194	523,616
Additions	7,630	-	32,656	11,090	203,528	20,234	275,138
Transfers	-	109,070	-	-	(109,070)	-	-
Disposals	-	(3,451)	(1,533)	(771)	(517)	-	(6,272)
Transfer from lease to fixed assets	-	-	-	-	-	-	-
Currency translation adjustment	137	4,291	3,346	776	3,968	732	13,250
At June 30, 2007 (unaudited)	10,725	267,784	185,992	45,731	248,340	47,160	805,732
At January 1, 2008 (audited)	33,826	371,483	235,074	51,761	431,339	63,865	1,187,348
Reclassification	-	-	(1,563)	1,563	-	-	-
Additions	14,278	1	37,203	5,794	247,208	39,583	344,067
Transfers	706	239,537	-	-	(240,243)	-	-
Disposals	-	(964)	(564)	(149)	(701)	-	(2,378)
Transfer from lease to fixed assets	-	-	-	8,451	-	(8,451)	-
Currency translation adjustment	1,880	22,194	11,639	2,728	20,154	3,611	62,206
At June 30, 2008 (unaudited)	50,690	632,251	281,789	70,148	457,757	98,608	1,591,243
Accumulated Depreciation							
At January 1, 2007 (audited)	-	(5,080)	(43,433)	(2,667)	-	(4,033)	(55,213)
Charge for the period	-	(2,999)	(16,384)	(2,489)	-	(1,958)	(23,830)
Eliminated on disposals	-	66	267	314	-	-	647
Transfer from lease to fixed assets	-	-	-	-	-	-	-
Currency translation adjustment	-	(132)	(1,033)	(76)	-	(101)	(1,342)
At June 30, 2007 (unaudited)	-	(8,145)	(60,583)	(4,918)	-	(6,092)	(79,738)
At January 1, 2008 (audited)	-	(13,206)	(83,534)	(6,873)	-	(9,487)	(113,100)
Reclassification	-	-	-	-	-	-	-
Charge for the period	-	(7,483)	(23,200)	(3,342)	-	(5,210)	(39,235)
Eliminated on disposals	-	57	299	31	-	-	387
Transfer from lease to fixed assets	-	-	-	(3,404)	-	3,404	-
Currency translation adjustment	-	(768)	(4,354)	(384)	-	(477)	(5,983)
At June 30, 2008 (unaudited)	-	(21,400)	(110,789)	(13,972)	-	(11,770)	(157,931)
Net Book Value							
At January 1, 2008 (audited)	**33,826**	**358,277**	**151,540**	**44,888**	**431,339**	**54,378**	**1,074,248**
At June 30, 2008 (unaudited)	**50,690**	**610,851**	**171,000**	**56,176**	**457,757**	**86,838**	**1,433,312**

At June 30, 2008 property, plant and equipment with a net book value of USD 11,536 thousand were pledged to secure certain short-term and long-term loans granted to the Group. At December 31, 2007 property, plant and equipment with a net book value of USD 6,927 thousand were pledged to secure certain short-term and long-term loans granted to the Group.

13. INTANGIBLE ASSETS

Intangible assets as of June 30, 2008 and December 31, 2007 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At January 1, 2007 (audited)	158	649	134	72	39	1,052
Additions	107	-	112	59	125	403
Disposals	(58)	(150)	(2)	-	(4)	(214)
Currency translation adjustment	3	11	3	1	5	23
At June 30, 2007 (unaudited)	210	510	247	132	165	1,264
At January 1, 2008	266	657	386	142	186	1,637
Additions	121	40	1,158	2	17	1,338
Disposals	(79)	-	(17)	-	(12)	(108)
Currency translation adjustment	14	32	44	5	9	104
At June 30, 2008 (unaudited)	322	729	1,571	149	200	2,971
Accumulated Amortization						
At January 1, 2007 (audited)	(56)	(36)	(5)	(14)	(14)	(125)
Charge for the year	(71)	(8)	(56)	(12)	(20)	(167)
Eliminated on disposals	58	1	2	-	4	65
Currency translation adjustment	-	(1)	-	-	(1)	(2)
At June 30, 2007 (unaudited)	(69)	(44)	(59)	(26)	(31)	(229)
At January 1, 2008 (audited)	(93)	(151)	(153)	(47)	(90)	(534)
Charge for the year	(95)	(64)	(308)	(8)	(45)	(520)
Eliminated on disposals	79	-	17	-	12	108
Currency translation adjustment	(10)	(10)	(13)	(2)	(5)	(40)
At June 30, 2008 (unaudited)	(119)	(225)	(457)	(57)	(128)	(986)
Net Book Value						
At January 1, 2008 (audited)	**173**	**506**	**233**	**95**	**96**	**1,103**
At June 30, 2008 (unaudited)	**203**	**504**	**1,114**	**92**	**72**	**1,985**

14. MERCHANDISE

Merchandise as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Goods for resale	330,177	316,141
Raw materials	25,014	14,268
Total	**355,191**	**330,409**

As of June 30, 2008 inventories with an approximate book value USD 29,790 thousand were collateralised against short-term and long-term loans granted to the Group (Notes 22 and 25).

15. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Trade receivables from third parties	1,790	2,614
Trade receivables from related parties	-	3
Less: provision for doubtful trade receivables	(58)	(202)
Total	**1,732**	**2,415**

16. ADVANCES PAID

Advances paid as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Advances to third party suppliers	29,836	38,285
Advances to employees	4,666	11,117
Advances to related party suppliers	49	21
Total	**34,551**	**49,423**

17. OTHER RECEIVABLES

Other receivables as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Value Added Tax	7,522	7,580
Other taxes receivable	4,033	-
Other receivables from related parties	2,608	2,758
Settlements with employees	2,556	2,774
Claims to suppliers	8	136
Other	14,802	12,629
Total	**31,529**	**25,877**

The Group engaged a third party to assist it in sourcing land for future development. As part of this agreement, a loan was provided to the third party with shares in LLC Agrotorg being provided as collateral. As a result of the default on the loan, these shares were subsequently transferred to the Group and sold in December 2007. Under the agreement for the sale of the shares of USD 13,216 thousand is to be paid till November 2008 and is included as “Other” above.

18. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2008 and December 31, 2007 consisted of the following:

	Weighted average interest rate	June 30, 2008 (unaudited)	Weighted average interest rate	December 31, 2007 (audited)
Short-term loans to third parties	13.78%	54,721	18.17%	12,775
Short-term loans to related parties	9.00%	134	8.97%	12
Total		**54,855**		**12,787**

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Petty cash	9,945	7,065
Cash in banks, in RUB	43,002	37,958
Cash in banks, in USD	3,278	-
Cash in transit	18,642	75,936
Total	**74,867**	**120,959**

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, 2008 and December 31, 2007.

20. SHARE CAPITAL AND SHARE PREMIUM

Additional shares were issued during the six months period ended June 30, 2008.

	June 30, 2008 No. ('000) (unaudited)	December 31, 2007 No. ('000) (audited)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850
Issue of shares	11,246	-
Issued and fully paid (par value of RUB 0.01)	83,246	72,000

On April 18, 2008 the Group performed an additional issue of 11,245,660 ordinary shares for a cash consideration USD 479,874 thousand less expenses related to the issue of shares in the amount of USD 13,282 thousand. The difference between cash received and the nominal value of shares (USD 466,588 thousand) was recorded as share premium.

Distributable profits are determined on the basis of profits reported in the statutory financial statements of the Company. These profits may differ significantly from those profits recorded under IFRS on a consolidated basis.

No cash dividends were declared or paid in the six months period ended June 30, 2008 or earlier.

21. LONG-TERM LOANS AND BONDS

Long-term loans and bonds as of June 30, 2008 and December 31, 2007 consisted of the following:

	Weighted average interest rate	**June 30, 2008 (unaudited)**	**Weighted average interest rate**	**December 31, 2007 (audited)**
Bonds issued in 2007	8.20%	157,329	8.20%	147,132
Bonds issued in 2005	9.34%	86,072	9.34%	85,287
Raiffeisen Bank	7.97%	6,409	9.18%	13,648
Uralsib	11.00%	3,480	-	-
Current portion of long-term loans (Note 25)		(89,355)		(85,287)
Total		**163,935**		**160,780**

Bonds Issued in 2007 – In March 2007 the Group issued bonds of RUB 5,000,000 thousand (USD 203,698 thousand), net of RUB 23,025 thousand direct issue costs (USD 938 thousand) maturing in March 2012. The total amount outstanding as of June 30, 2008 is RUB 3,613,840 thousand (USD 154,060 thousand), net of RUB 17,393 thousand of direct issue costs (USD 741 thousand) plus accrued interest of RUB 76,679 thousand (USD 3,269 thousand). The bonds are listed on the Moscow Interbank Currency Exchange (“MICEX”). Bonds of RUB 1,368,787 thousand (USD 58,351 thousand) of the issue were purchased in the open market and are held by CJSC “Tander”.

Bonds Issued in 2005 – In November 2005 the Group issued bonds of RUB 2,000,000 thousand (USD 69,486 thousand) maturing in November 2008. The total amount outstanding as of June 30, 2008 was RUB 1,998,545 thousand (USD 85,199 thousand), net of direct issue costs of RUB 1,455 thousand (USD 62 thousand) plus accrued interest of RUB 20,480 thousand (USD 873 thousand). Interest is payable twice a year in May and November. The bonds are listed on “MICEX”.

Raiffeisen Bank – During 2007 year the Group entered into a number of credit line agreements allowing borrowings of up to RUB 150,000 thousand (USD 6,395 thousand) maturing between June-July 2009. The amount outstanding as of June 30, 2008 is RUB 150,343 thousand (USD 6,409 thousand) plus interest accrued of RUB 343 thousand (USD 15 thousand). The credit lines were unsecured as of June 30, 2008. Interest payable is based on Mosprime plus 2.70%.

Uralsib Bank – During 2008 year the Group entered into a number of credit line agreements allowing borrowings of up to RUB 150,000 thousand (USD 6,395 thousand) maturing in October 2009. The total amount outstanding as of June 30, 2008 is RUB 81,641 thousand (USD 3,480 thousand). The credit lines were collateralized by fixed assets with approximate book value of RUB 155,251 thousand (USD 6,618 thousand) and merchandise with approximate book value of RUB 139,774 thousand (USD 5,959 thousand).

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

Short-term and long-term obligations under finance leases as of June 30, 2008 and December 31, 2007 consisted of the following:

	Minimum lease payments June 30, 2008 (unaudited)	Minimum lease payments December 31, 2007 (audited)	Present value of minimum lease payments June 30, 2008 (unaudited)	Present value of minimum lease payments December 31, 2007 (audited)
Amounts payable under finance leases				
Within one year	28,695	16,905	21,887	13,143
Between one and two years	25,360	13,203	21,272	11,024
Over two years	23,541	12,511	21,964	11,640
Less: Future finance charges	(12,467)	(6,759)		
Effect of foreign exchange rates on leased obligations	(6)	(53)		
Present value of lease obligations	65,123	35,807	65,123	35,807
Less: Amount due for settlement within 12 months			(21,886)	(13,143)
Amount due for settlement after 12 months			**43,237**	**22,664**

The Group has entered into certain lease agreements with LLC “Hansa-Leasing”, LLC “Raiffeisen-Leasing”, CJSC “Europlan” and “Cargobul Finance” for the rent of vehicles with an average lease term of 2.56 years. The average borrowing rate for 6m 2008 and 6m 2007 was 16% and 22%, 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 amounts.

23. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Trade payables to third parties	463,384	437,639
Trade payables to related parties (Note 26)	4	4
Total	**463,388**	**437,643**

24. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Accrued salaries and wages	30,930	23,893
Other accrued expenses	9,603	5,735
Unified Social Tax	7,248	4,122
Personal Income Tax	4,375	3,044
Property tax	3,067	2,765
Value Added Tax	-	1,064
Other payables to third parties	19,567	947
Other payables to related parties (Note 26)	1,919	853
Other taxes	617	389
Total	**77,326**	**42,812**

25. SHORT-TERM LOANS

Short-term loans as of June 30, 2008 and December 31, 2007 consisted of the following:

	Weighted average interest rate	June 30, 2008 (unaudited)	Weighted average interest rate	December 31, 2007 (audited)
Bonds issued in 2005	9.34%	86,072	9.34%	85,287
Sberbank, Severokavkazskiy branch	8.28%	45,422	8.02%	43,416
BSGV	7.09%	40,568	9.03%	40,912
Uralsib Bank	10.28%	13,611	10.00%	10,959
Raiffeisen Bank	8.35%	12,531	8.93%	44,284
Sberbank, Krasnodar branch	8.25%	9,507	7.71%	164,914
Sberbank, Volgo-Vjatskiy branch	9.01%	5,128	10.00%	8,360
Yugbank	8.54%	2,050	6%	2,883
Other short-term loans	7.57%	61	0%	10
Deutche bank	-	-	11.00%	40,074
International Moscow Bank	-	-	9.39%	32,677
Gazprombank	-	-	10.00%	20,370
Kukushkin V.	-	-	0%	1,727
Edelveis	-	-	8%	174
Current portion of long-term loans	-	3,283	-	-
Total		**218,233**		**496,047**

Sberbank, Severokavkazskiy Branch – The Group entered into a number of credit agreements for borrowings of up to RUB 1,065,000 thousand (USD 45,402 thousand) maturing between August – September 2008. The credit lines were unsecured as of June 30, 2008.

BSGV Bank – The Group entered into a number of credit agreements for borrowings of up to RUB 1,000,000 thousand (USD 42,631 thousand) maturing between July – November 2008. The credit lines were unsecured as of June 30, 2008.

Uralsib Bank – The Group entered into a number of credit agreements for borrowings of up to RUB 325,000 thousand (USD 13,855 thousand) maturing between September – November 2008. The credit lines are collateralized by fixed assets with an approximate book value of RUB 115,363 thousand (USD 4,918 thousand) and merchandise with an approximate book value of RUB 307,706 thousand (USD 13,118 thousand).

Raiffeisen Bank – During 2007 and 2008 year the Group entered into a number of credit agreements for borrowings of up to RUB 335,000 thousand (USD 14,281 thousand) maturing between July 2008 and June 2009. The credit lines were unsecured as of June 30, 2008.

Sberbank, Krasnodar Branch – The Group entered into a number of credit agreements allowing borrowings of up to RUB 223,000 thousand (USD 9,507 thousand) maturing in August 2008. The credit lines were unsecured as of June 30, 2008.

Sberbank, Volgo-Vjatskiy Branch – During 2007 year the Group entered into a number of credit agreements for borrowings of up to RUB 120,000 thousand (USD 5,116 thousand) maturing in October 2008. The credit lines are collateralized by merchandise with approximate book value of RUB 251,291 thousand (USD 10,713 thousand).

Yugbank – The Group entered into a number of credit agreements for borrowings of up to RUB 150,000 thousand (USD 6,395 thousand) maturing in April 2009. The total amount outstanding as of June 30, 2008 is RUB 47,964 thousand (USD 2,045 thousand) plus interest accrued of RUB 113 thousand (USD 5 thousand). The credit lines were unsecured as of June 30, 2008.

26. TRANSACTIONS WITH RELATED PARTIES

The ultimate controlling party of the Group is Galitskiy S.N (Note 1).

The Group enters into transactions with related parties in the ordinary course of business. Related parties, allied with the Group through key management personnel, mainly purchase merchandise from the Group, obtain loans and hold bank deposits.

Loans to related parties mature in August-December 2011, are interest free and unsecured. These loans are stated at cost as the discounting effect is not significant.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Related party balances as of June 30, 2008 and December 31, 2007 consisted of the following:

	June 30, 2008 (unaudited)	**December 31, 2007 (audited)**
Trade receivables	-	3
Advances paid	49	21
Other receivables	2,608	2,758
Loans given	134	12
Trade payables	4	4
Other payables	1,919	853
Advances received	-	-
Loans obtained	-	-

The Group's transactions with related parties for the six months period ended of June 30, 2008 and June 30, 2007 consisted of the following:

	6 months 2008 (unaudited)	6 months 2007 (unaudited)
Purchases of property, plant and equipment	6,384	36,787
Rent received	343	256
Loans obtained	-	-
Sales of merchandise	584	4,084
Other sales	2,034	2,692
Rent paid	47	557
Interest on deposit	-	216
Loans given	119	-

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.

The remuneration of Group management and members of the Board of directors of Group companies for the six months period ended of June 30, 2008 and June 30, 2007 was USD 1,524 thousand and USD 571 thousand, respectively.

27. CAPITAL AND RENT COMMITMENTS

As of June 30, 2008 and December 31, 2007 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Commitments for the acquisition of property, plant and equipment	201,445	21,167

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

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Within one year	90,438	89,796
In the second to fifth years inclusive	90,455	98,237
After five years	13,102	7,926
Total	**193,995**	**195,959**

28. 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.

29. 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.

30. 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 as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by minimizing the portion of borrowings at floating rate.

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's exposure to credit risk arises only with respect to wholesale activities. During recent years the volume of wholesale business activities has significantly decreased in relation to the total volume of sales. The Group intends to cease its wholesale activities in the near term. The Group is dealing with creditworthy counterparties, who have a good long term credit history. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes the fair value of financial instruments held by the Group approximates their carrying values due to the fact that a majority of the Groups financial assets and liabilities are short-term in nature.