Open Joint Stock Company “Magnit” and its subsidiaries

Independent Auditor’s Report

Consolidated Financial Statements
Years Ended December 31, 2007, 2006 and 2005

OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor's in relation to the consolidated financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group at December 31, 2007, 2006 and 2005, the results of its operations, changes in equity and cash flows for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

- Selecting suitable accounting policies and applying them consistently;
- Making judgment and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated 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 consolidated 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
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements on pages 4-41 for the years ended December 31, 2007, 2006 and 2005 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 March 14, 2008 by:

Sergey Galitskiy Chief Executive Officer	**Alexander Prisyazhnyuk** Chief Financial Officer

March 14, 2008
Moscow, Russia

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Open Joint Stock Company "Magnit":

We have audited the accompanying financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at December 31, 2007, 2006 and 2005 and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2007, 2006 and 2005 and the results of its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

March 14, 2008

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(In thousands of US Dollars)

	Notes	2007	2006	2005
REVENUE	7	3,676,559	2,505,030	1,577,672
COST OF SALES	8	(2,946,515)	(2,047,997)	(1,311,072)
GROSS PROFIT		730,044	457,033	266,600
Selling expenses	9	(29,488)	(19,938)	(14,519)
General and administrative expenses	10	(537,353)	(341,383)	(188,223)
Investment income	11	640	1,322	9
Finance costs	12	(36,101)	(14,356)	(12,881)
Other income		5,005	2,127	901
Other expenses		(2,631)	(3,340)	(1,857)
PROFIT BEFORE TAX		130,116	81,465	50,030
INCOME TAX EXPENSE	13	(32,726)	(23,500)	(12,517)
PROFIT FOR THE YEAR		97,390	57,965	37,513
Attributable to:				
Equity holders of the parent		96,549	57,420	37,513
Minority interest		841	545	-
		97,390	57,965	37,513
EARNINGS PER SHARE	14			
Basic (US Dollars per share)		1.34	0.81	0.58

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

Signed on behalf of the Board:

Sergey Galitskiy
Chief Executive Officer March 14, 2008

Alexander Prisyazhnyuk
Chief Financial Officer March 14, 2008

CONSOLIDATED BALANCE SHEETS
AT DECEMBER 31, 2007, 2006 AND 2005
(In thousands of US Dollars)

	Notes	2007	2006	2005
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	15	1,074,248	468,401	160,108
Intangible assets	16	1,103	927	350
Goodwill		-	238	-
Long-term investments		227	322	-
		1,075,578	469,888	160,458
CURRENT ASSETS:				
Merchandise	17	330,409	247,466	151,276
Trade accounts receivable	18	2,415	5,344	738
Advances paid	19	49,423	58,070	21,144
Other receivables	20	25,877	16,648	25,335
Prepaid expenses	21	2,454	830	392
Short-term investments		12,787	2,169	-
Other current assets		118	-	-
Cash and cash equivalents	22	120,959	89,789	45,771
		544,442	420,316	244,656
TOTAL ASSETS		1,620,020	890,204	405,114
EQUITY AND LIABILITIES				
Share capital	23	26	26	23
Share premium	23	179,427	179,427	148
Foreign currency translation reserve		41,103	15,385	(2,409)
Retained earnings		206,405	109,856	52,436
Equity attributable to equity holders of the parent:		**426,961**	**304,694**	**50,198**
Minority interest		1,386	545	-
TOTAL EQUITY		428,347	305,239	50,198
NON-CURRENT LIABILITIES:				
Long-term loans and bonds	24	160,780	82,922	79,351
Long-term obligations under finance leases	25	22,664	6,424	3,466
Deferred tax liabilities	13	15,811	14,714	9,968
		199,255	104,060	92,785
CURRENT LIABILITIES:				
Trade accounts payable	26	437,643	281,401	154,224
Other payables and accrued expenses	27	42,812	28,636	23,333
Income tax payable		2,773	3,733	7,201
Short-term obligations under finance leases	25	13,143	6,716	2,554
Short-term loans	28	496,047	160,419	74,819
		992,418	480,905	262,131
TOTAL EQUITY AND LIABILITIES		1,620,020	890,204	405,114

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(In thousands of US Dollars)

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Equity attributable to equity-holders of the parent	Minority interest	Total
Balance at January 1, 2005	**23**	**148**	**16**	**14,923**	**15,110**	**-**	**15,110**
Profit for the year	-	-		37,513	37,513	-	37,513
Currency translation differences	-	-	(2,425)	-	(2,425)	-	(2,425)
Total recognised income and expense	**-**	**-**	**(2,425)**	**37,513**	**35,088**	**-**	**35,088**
Balance at December 31, 2005	**23**	**148**	**(2,409)**	**52,436**	**50,198**	**-**	**50,198**
Balance at January 1, 2006	**23**	**148**	**(2,409)**	**52,436**	**50,198**	**-**	**50,198**
Profit for the year	-	-		57,420	57,420	545	57,965
Currency translation differences	-	-	17,794	-	17,794	-	17,794
Total recognised income and expense	**-**	**-**	**17,794**	**57,420**	**75,214**	**545**	**75,759**
Additional issue of shares (Note 23)	3	179,279	-	-	179,282	-	179,282
Balance at December 31, 2006	**26**	**179,427**	**15,385**	**109,856**	**304,694**	**545**	**305,239**
Balance at January 1, 2007	**26**	**179,427**	**15,385**	**109,856**	**304,694**	**545**	**305,239**
Profit for the year	-	-	-	96,549	96,549	841	97,390
Currency translation differences	-	-	25,718	-	25,718	-	25,718
Total recognised income and expense	**-**	**-**	**25,718**	**96,549**	**122,267**	**841**	**123,108**
Balance at December 31, 2007	**26**	**179,427**	**41,103**	**206,405**	**426,961**	**1,386**	**428,347**

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(In thousands of US Dollars)

	Notes	2007	2006	2005
OPERATING ACTIVITIES:				
Profit before tax		130,116	81,465	50,030
Adjustments for:				
Depreciation		53,102	28,949	15,056
Amortization		564	138	60
Loss/(gain) on disposal of property, plant and equipment		724	463	(108)
Change in provision for doubtful receivables		(913)	736	546
Investment income		(640)	(1,322)	(9)
Finance costs		36,101	14,356	12,881
Operating profit before movements in working capital		219,054	124,785	78,456
Decrease/(increase) in trade accounts receivable		3,842	(5,342)	3,357
Decrease/(increase) in advances paid		8,647	(36,926)	(18,557)
(Increase)/decrease in other receivables		(9,387)	8,687	(3,682)
Decrease/(increase) in taxes receivable		158	(158)	(4,901)
Increase in prepaid expenses		(1,624)	(438)	(392)
Increase in merchandise		(82,943)	(96,190)	(77,686)
Increase in trade accounts payable		156,242	127,177	28,316
Increase in other payables		14,176	5,303	35,643
(Decrease)/increase in taxes payable		(960)	(3,468)	7,667
Cash flows from operations		307,205	123,430	48,221
Income tax paid		(36,359)	(24,581)	(3,161)
Interest paid		(28,491)	(12,866)	(11,436)
Net cash generated from operating activities		242,355	85,983	33,624
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(571,014)	(300,889)	(78,339)
Purchase of intangible assets		(744)	(418)	(304)
Proceeds from disposal of property, plant and equipment		4,333	2,253	1,214
Repayment of long-term loans		-	(312)	-
Purchase of investments		(27,511)	(56,899)	(7,146)
Proceeds from sale of investments		26,238	54,713	5,921
Net cash used in investing activities		(568,698)	(301,552)	(78,654)

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (CONTINUED)
(In thousands of US Dollars)

	Notes	2007	2006	2005
FINANCING ACTIVITIES:				
Proceeds from borrowings		1,522,374	599,826	679,311
Repayments of borrowings		(1,153,940)	(510,655)	(597,866)
Payment of bond issue costs		(900)	-	(464)
Repayment of obligations under finance leases		(12,702)	(9,741)	(8,608)
Proceeds from issue of ordinary shares		-	179,282	-
Net cash generated from financing activities		354,832	258,712	72,373
NET INCREASE IN CASH AND CASH EQUIVALENTS		28,489	43,143	27,343
CASH AND CASH EQUIVALENTS, beginning of year		89,789	45,771	19,742
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		2,681	875	(1,314)
CASH AND CASH EQUIVALENTS, end of year	22	120,959	89,789	45,771

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

1. NATURE OF 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"). For the purposes of these consolidated financial statements, all prior period information has been retrospectively restated as if the reorganization was effective 1 January 2005 (see Note 5 common control transactions).

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 2007	Ownership Interest 2006	Ownership Interest 2005
CJSC "Tander"	Food retail and wholesale	100%	100%	100%
LLC "Magnit Finance"	Issuer of the Group's bonds	100%	100%	100%
LLC "BestTorg"	Food retail in the city of Moscow and the Moscow region	100%	100%	100%
LLC "Tander-Magnit"	Food retail in the Moscow region	100%	100%	100%
LLC "Selta"	Transportation services for the Group	100%	100%	100%
LLC "Project M"	Food retail in Saint-Petersburg	100%	100%	100%
LLC "Magnit-Nizhniy Novgorod"	Holding company of LLC "Tandem"	51%	51%	0%
LLC "Tandem"	Food retail in Nizhniy Novgorod	51%	51%	0%
LLC "Alkotrading"	License holder for alcohol sales	100%	100%	100%
LLC "Vals"	Food retail in Nizhniy Novgorod	0%	51%	0%

At December 31, 2007, 2006 and 2005 the shareholding structure of the Company was as follows:

	2007		2006		2005	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Galitskiy S.N.	36,720,000	51.00%	36,720,000	51.00%	43,157,124	66.45%
Labini Investments Ltd. (Cyprus)	7,402,611	10.28%	7,660,664	10.64%	14,612,994	22.50%
Lavreno Ltd. (Cyprus)	5,160,364	7.17%	5,033,455	6.99%	-	-
Gordeichuk V.E.	2,999,100	4.17%	3,114,100	4.33%	3,572,082	5.50%
Other (Group management)	2,238,450	3.11%	2,434,359	3.38%	3,604,554	5.55%
Free float	17,479,475	24.27%	17,037,422	23.66%	-	-
Total	**72,000,000**	**100%**	**72,000,000**	**100%**	**64,946,754**	**100%**

At December 31 2007, the Group's current liabilities exceed its current assets. In recent years the Group has expanded rapidly and during 2007 commenced development of a hypermarket format. Due to the fact that the costs of long term borrowings have been higher compared to those of shorter maturities, such development has been funded with borrowings subject to repayment terms of short-term duration. At the end of 2007 and early in 2008 the Group entered into a number of credit agreements exceeding one year, allowing it to borrow up to RUB 4,350,000 thousand (USD 177,217 thousand). Utilisation of such borrowings may be used to refinance the Group's current obligations, if required.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital (see note 33).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives* and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these new and revised Standards and Interpretations did not result in changes to the Group's accounting policies.

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
IFRS 8 "Operating Segments"	January 1, 2009
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"	March 1, 2007
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. GROUP REORGANISATION

In 2005, Magnit's ultimate controlling party, Galitskiy S.N., completed a group reorganization involving CJSC Magnit and another entity under its control, CJSC Tander. As part of the reorganization, 275,815,300 ordinary shares in CJSC "Tander" of RUB 0.01 were transferred to CJSC Magnit by the shareholders for 2,758,153 ordinary shares in CJSC "Magnit". As a result of the share transfer, Magnit became the holding company of CJSC "Tander" and its subsidiaries. However, the principal retail operations of the Group continued to be conducted through Tander.

The Group reorganization was considered to be a common control transaction and was accounted for in accordance with the accounting policies specified in Note 5.

In addition to the share exchange, Magnit undertook certain equity transactions related to the reorganization. These equity transactions and movements in share capital and share premium are disclosed in Note 23.

4. PRESENTATION OF FINANCIAL STATEMENTS

Statement of Compliance – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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.

Basis of Presentation – 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 principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's Russian statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis.

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

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

The translation from RUB (functional currency) 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 consolidated balance sheet presented;
- All items included in the consolidated statement of changes in equity, other than net profit for the year, are translated at historical exchange rates;
- All income and expenses in each consolidated income statement are translated at the average exchange rates for the years presented; and
- In the consolidated cash flow statement, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at the average exchange rates for the years presented.

The RUB is not a freely convertible currency outside of the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated 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.

5. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation – The 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 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 year are included in the consolidated 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. 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.

6. 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.

7. REVENUE

Revenue for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Retail	3,647,638	2,460,955	1,552,559
Wholesale	28,921	44,075	25,113
Total	**3,676,559**	**2,505,030**	**1,577,672**

8. COST OF SALES

Cost of sales, classified by function, for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Retail	2,919,756	2,012,822	1,287,765
Wholesale	26,759	35,175	23,307
Total	**2,946,515**	**2,047,997**	**1,311,072**

Cost of sales, classified by nature, for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Cost of goods sold	2,959,290	2,037,850	1,296,361
Transportation expenses	59,983	35,771	20,053
Losses due to inventory shortages	17,256	8,995	7,158
Rebates and promotional bonuses received from suppliers	(90,014)	(34,619)	(12,500)
Total	**2,946,515**	**2,047,997**	**1,311,072**

9. SELLING EXPENSES

Selling expenses for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Packaging and raw materials	11,742	8,738	6,402
Depreciation	9,394	3,929	1,418
Fuel	3,467	2,458	1,533
Transportation	2,464	3,209	3,338
Advertising	2,421	1,604	1,828
Total	**29,488**	**19,938**	**14,519**

10. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Payroll	241,459	151,761	89,920
Rent and utilities	139,194	87,887	42,707
Payroll related taxes	59,855	37,981	22,615
Depreciation	43,708	25,020	13,638
Repair and maintenance	10,812	5,526	7,289
Taxes, other than income tax	9,574	7,039	1,729
Bank services	7,155	4,729	2,840
Security	5,627	4,065	2,466
Provision for unused vacation	3,021	1,873	-
Bad debt provision	(913)	736	546
Other expenses	17,861	14,766	4,473
Total	**537,353**	**341,383**	**188,223**

11. INVESTMENT INCOME

Investment income for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Interest on loans	375	283	9
Interest income from related party	219	-	-
Interest on deposit from related party	-	1,039	-
Other investment revenue	46	-	-
Total	**640**	**1,322**	**9**

12. FINANCE COSTS

Finance costs for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Interest on loans	16,776	5,471	11,190
Interest on bonds	15,965	6,503	689
Interest on finance leases	3,360	2,382	1,002
Total	**36,101**	**14,356**	**12,881**

13. INCOME TAX

The Group's provision for income tax for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Current tax	28,931	20,472	10,135
Deferred tax	3,795	3,028	2,382
Total income tax expense	**32,726**	**23,500**	**12,517**

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.

The movements for 2007, 2006 and 2005 in the Group's deferred tax position are as follows:

	2007	2006	2005
Liability at the beginning of the year	14,714	9,968	8,270
Charge for the year	3,795	3,028	2,382
Currency adjustment	(2,698)	1,718	(684)
Liability at the end of the year	**15,811**	**14,714**	**9,968**

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005
Deferred tax liabilities			
Property, plant and equipment	15,452	14,714	9,968
Other deferred tax liabilities	359	-	-
Net deferred tax liability	**15,811**	**14,714**	**9,968**

The statutory tax rate effective in the Russian Federation, the location of all of the Group's entities, was 24% in 2007, 2006 and 2005. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group's income statement:

	2007	**2006**	**2005**
Profit before tax	130,116	81,465	50,030
Theoretical income tax expense at 24%	(31,228)	(19,552)	(12,007)
Adjustments due to:			
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(1,899)	(2,018)	(1,036)
Tax effect of other income that is not taxable in determining taxable profit	401	-	526
Tax effect of other expenses that are not deductible in determining taxable profit	-	(1,930)	-
Income tax expense	**(32,726)**	**(23,500)**	**(12,517)**

14. EARNINGS PER SHARE

Earnings per share for the years ended December 31, 2007, 2006 and 2005 have been calculated on the basis of the net profit for the year and the weighted average number of common shares in issue during the year.

The calculation of earnings per common share for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	**2006**	**2005**
Profit for the year attributable to equity holders of the parent	96,549	57,420	37,513
Weighted average number of shares (in thousand of shares)	72,000	70,589	64,947
Basic earnings per share (in US Dollars)	**1.34**	**0.81**	**0.58**

Earnings per share have been determined using the weighted average number of the Company's shares outstanding during the years ended December 31, 2007, 2006 and 2005. The earnings per share amount for 2006 has been restated from $8.10, as disclosed in the 2006 financial report signed on 17 April 2006 to $0.81. The restatement arises due to the fact that the weighted average number of shares for 2006 did not take into account the bonus issue of shares that occurred during 2006 in the calculation of earnings per share in 2006.

The Group does not have any potentially dilutive equity instruments.

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2007, 2006 and 2005 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Construction in progress	Equipment under finance lease	Total
Cost							
At January 1, 2005	-	24,888	50,027	7,481	18,147	2,679	103,222
Additions	-	-	32,274	667	45,398	8,729	87, 068
Transfers	-	32,259	-	-	(32,259)	-	-
Disposals	-	(815)	(374)	(18)	-	-	(1,207)
Currency adjustment	-	(1,302)	(2,413)	(482)	(881)	(265)	(5,343)
At December 31, 2005	-	55,030	79,514	7,648	30,405	11,143	183,740
At January 1, 2006	-	55,030	79,514	7,648	30,405	11,143	183,740
Acquired on acquisition of subsidiary	-	-	459	13	517	-	989
Additions	2,865	-	62,715	25,756	209,553	13,954	314,843
Transfers	-	95,802	-	-	(95,802)	-	-
Disposals	-	(1,150)	(600)	(699)	(755)	-	(3,204)
Transfer from lease to fixed assets	-	-	-	381	-	(381)	-
Currency adjustment	93	8,192	9,435	1,537	6,513	1,478	27,248
At December 31, 2006	2,958	157,874	151,523	34,636	150,431	26,194	523,616
At January 1, 2007	2,958	157,874	151,523	34,636	150,431	26,194	523,616
Additions	29,418	20	71,053	13,811	456,712	35,464	606,478
Transfers	-	197,615	-	-	(197,615)	-	-
Disposals	-	(3,704)	(1,446)	(910)	(5)	-	(6,065)
Transfer from lease to fixed assets	-	-	-	1,139	-	(1,139)	-
Currency adjustment	1,450	19,678	13,944	3,085	21,816	3,346	63,319
At December 31, 2007	33,826	371,483	235,074	51,761	431,339	63,865	1,187,348
Accumulated Depreciation							
At January 1, 2005	-	(687)	(7,686)	(827)	-	(101)	(9,301)
Charge for the year	-	(1,121)	(12,658)	(426)	-	(851)	(15,056)
Eliminated on disposals	-	17	77	7	-	-	101
Currency adjustment	-	45	519	42	-	18	624
At December 31, 2005	-	(1,746)	(19,748)	(1,204)	-	(934)	(23,632)
At January 1, 2006	-	(1,746)	(19,748)	(1,204)	-	(934)	(23,632)
Charge for the year	-	(3,116)	(21,313)	(1,357)	-	(3,163)	(28,949)
Eliminated on disposals	-	44	151	293	-	-	488
Transfer from lease to fixed assets	-	-	-	(246)	-	246	-
Currency adjustment	-	(262)	(2,525)	(153)	-	(182)	(3,122)
At December 31, 2006	-	(5,080)	(43,435)	(2,667)	-	(4,033)	(55,215)
At January 1, 2007	-	(5,080)	(43,435)	(2,667)	-	(4,033)	(55,215)
Charge for the year	-	(7,581)	(36,331)	(3,710)	-	(5,480)	(53,102)
Eliminated on disposals	-	90	534	384	-	-	1,008
Transfer from lease to fixed assets	-	-	-	(527)	-	527	-
Currency adjustment	-	(635)	(4,302)	(353)	-	(501)	(5,791)
At December 31, 2007	-	(13,206)	(83,534)	(6,873)	-	(9,487)	(113,100)
Net Book Value							
At December 31, 2005	**-**	**53,284**	**59,766**	**6,444**	**30,405**	**10,209**	**160,108**
At December 31, 2006	**2,958**	**152,794**	**108,088**	**31,969**	**150,431**	**22,161**	**468,401**
At December 31, 2007	**33,826**	**358,277**	**151,540**	**44,888**	**431,339**	**54,378**	**1,074,248**

At December 31, 2007 property, plant and equipment with a net book value of USD 6,927 thousand was pledged to secure certain short term and long term loans granted to the Group (Notes 24 and 28).

At December 31, 2006 property, plant and equipment with a net book value of USD 7,503 thousand was pledged to secure certain bank guarantees, short-term and long-term loans granted to the Group.

At December 31, 2005, no property, plant and equipment was pledged to secure short-term and long-term loans granted to the Group.

The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity without prior approval from the collateral holder.

16. INTANGIBLE ASSETS

Intangible assets as of December 31, 2007, 2006 and 2005 consisted of the following:

	Licenses	Lease rights	Software	Trade mark	Other	Total
Cost						
At January 1, 2005	42	-	3	29	69	143
Additions	59	174	30	16	25	304
Disposals	-	-	-	-	-	-
Currency adjustment	(3)	(2)	-	(1)	(2)	(8)
At December 31, 2005	98	172	33	44	92	439
At January 1, 2006	98	172	33	44	92	439
Acquired on acquisition of subsidiary	-	383	-	-	-	383
Additions	137	110	129	22	20	418
Disposals	(88)	(47)	(35)	-	(80)	(250)
Currency adjustment	11	31	7	6	7	62
At December 31, 2006	158	649	134	72	39	1,052
At January 1, 2007	158	649	134	72	39	1,052
Additions	218	69	247	63	147	744
Disposals	(125)	(106)	(15)	-	(9)	(255)
Currency adjustment	15	45	20	7	9	96
At December 31, 2007	266	657	386	142	186	1,637
Accumulated Amortization						
At January 1, 2005	(24)	-	-	(4)	(1)	(29)
Charge for the year	(34)	(1)	(10)	(5)	(10)	(60)
Eliminated on disposals	-	-	-	-	-	-
Currency adjustment	1	-	-	-	(1)	-
At December 31, 2005	(57)	(1)	(10)	(9)	(12)	(89)
At January 1, 2006	(57)	(1)	(10)	(9)	(12)	(89)
Acquired on acquisition of subsidiary	-	-	-	-	-	-
Charge for the year	(81)	(34)	(4)	(4)	(15)	(138)
Eliminated on disposals	88	-	11	-	14	113
Currency adjustment	(6)	(1)	(2)	(1)	(1)	(11)
At December 31, 2006	(56)	(36)	(5)	(14)	(14)	(125)
At January 1, 2007	(56)	(36)	(5)	(14)	(14)	(125)
Charge for the year	(162)	(136)	(156)	(30)	(80)	(564)
Eliminated on disposals	132	28	15	-	8	183
Currency adjustment	(7)	(7)	(7)	(3)	(4)	(28)
At December 31, 2007	(93)	(151)	(153)	(47)	(90)	(534)
Net Book Value						
At December 31, 2005	**41**	**171**	**23**	**35**	**80**	**350**
At December 31, 2006	**102**	**613**	**129**	**58**	**25**	**927**
At December 31, 2007	**173**	**506**	**233**	**95**	**96**	**1,103**

Amortization expense is included in other expenses (Note 10).

17. MERCHANDISE

Merchandise as at December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Goods for resale	330,409	247,466	151,276
Total	**330,409**	**247,466**	**151,276**

As at December 31, 2007 merchandise with an approximate book value USD 34,983 thousand (2006: USD 27,651 thousand, 2005: USD 48,395 thousand) was collateralised against short-term and long-term loans granted to the Group (Notes 24 and 28). The Group is not allowed to pledge these assets as security for other borrowings and is required to maintain it's level of inventory in an amount equal to or exceeding the collateralised amount.

18. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Trade receivables from third parties	2,614	6,459	1,117
Trade receivables from related parties	3	-	-
Less: provision for doubtful trade receivables	(202)	(1,115)	(379)
Total	**2,415**	**5,344**	**738**

The average credit period for wholesale was 49 days in 2007, 25 days in 2006 and 38 days in 2005. No interest is charged on outstanding receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of USD 944 thousand which are past due at the reporting date for which the Group has not provided a reserve as there has not been a significant change in their credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these balances is 45 days.

Ageing of trade receivables past due but not impaired:

	2007	2006	2005
less than 90 days	1,890	4,124	488
between 90-180 days	160	480	26
between 180-360 days	137	1,500	56
greater than 360 days	430	355	547
Total	**2,617**	**6,459**	**1,117**

Movement in the provision for doubtful debts:

	2007	2006	2005
Balance at beginning of the year	1,115	379	324
(Decrease)/increase in provision recognised in the profit or loss	(913)	736	55
Balance at end of the year	**202**	**1,115**	**379**

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

19. ADVANCES PAID

Advances paid as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Advances to third party suppliers	38,285	36,311	20,070
Advances to employees	11,117	21,759	572
Advances to related party suppliers	21	-	502
Total	**49,423**	**58,070**	**21,144**

20. OTHER RECEIVABLES

Other receivables as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Value Added Tax	7,580	11,283	23,048
Other taxes receivable	-	158	-
Settlements with employees	2,774	2,686	1,471
Other receivables from related parties	2,758	432	241
Claims to suppliers	136	409	279
Other	12,629	1,680	296
Total	**25,877**	**16,648**	**25,335**

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 12,629 thousand is to be paid in May 2008 and is included as 'Other' above.

The Group does not hold any collateral over these balances. The average age of these balances is 45 days.

Ageing of other receivables past due but not impaired:

	2007	2006	2005
less than 90 days	5,668	4,714	2,069
between 90-180 days	12,629	610	190
between 180-360 days	-	41	28
greater than 360 days	-	-	-
Total	**18,297**	**5,365**	**2,287**

In determining the recoverability of other receivables, the Group considers any change in their credit quality from the date credit was initially granted up to the reporting date. The directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

21. PREPAID EXPENSES

Prepaid expenses as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Expenses related to long-term lease contract	1,537	230	1
Property insurance	690	220	223
Rent	95	201	140
Other	132	179	28
Total	**2,454**	**830**	**392**

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Petty cash	7,065	4,845	2,766
Cash on deposit held with a related party, in RUB	-	10,634	-
Cash in banks, in RUB	37,958	19,383	18,896
Cash in transit	75,936	54,927	24,109
Total	**120,959**	**89,789**	**45,771**

Cash in transit represents cash collected by the bank from the Group's stores and not deposited in a bank account as of December 31.

Deposits in Russian Roubles were placed with LLC KB Sistema in 2006, a related party, had interest of 12% per annum and matured in February-March 2007.

23. SHARE CAPITAL AND SHARE PREMIUM

	2007 No. ('000)	2006 No. ('000)	2005 No. ('000)
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850	200,850
Issued and fully paid (par value of RUB 0.01)	72,000	72,000	64,947

	2007 No. ('000)	2006 No. ('000)	2005 No. ('000)
Balance at beginning of financial year	72,000	64,947	850
Issue of shares related to reorganization	-	7,053 (c)	2,758 (a)
Bonus share issue	-	-	61,339 (b)
Balance at the end of financial year	72,000	72,000	64,947

(a) The Group issued 2,758,153 of ordinary shares for a total cash consideration of RUB 4,138 thousand (USD 148 thousand). The difference between cash received and the nominal value of shares (USD 148 thousand) was recorded as share premium at the beginning of the year ended January 1, 2005.

(b) In December, 2005 the Group issued an additional 61,338,601 ordinary shares for no consideration to its shareholders. For the purposes of calculating earnings per share for 2005, the weighted average number of shares has been adjusted as if these bonus shares were on issue at the beginning of the 2005 financial year.
(c) In March, 2006 the Group issued an additional issue 7,053,246 ordinary shares for a cash consideration of RUB 5,018,596 thousand, the difference between cash received and the nominal value of shares (USD 179,279 thousand) was recorded as share premium during the year ended December 31, 2006.

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 2007, 2006 or 2005.

24. LONG-TERM LOANS AND BONDS

Long-term loans and bonds as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007		2006		2005	
	Weighted average interest rate	**Amount**	**Weighted average interest rate**	**Amount**	**Weighted average interest rate**	**Amount**
Bonds issued in 2007	8.20%	147,132	-	-	-	-
Bonds issued in 2005	9.34%	85,287	9.34%	73,491	9.34%	69,707
Raiffeisen Bank	9.18%	13,648	-	-	-	
Sberbank, Volgo-Vjatskij branch	-	-	8.01%	5,481	-	-
Uralsib Bank	-	-	8%	3,950	-	-
Sberbank, Stavropol branch	-	-	-	-	10%	19,109
Sberbank, Krasnodar branch	-	-	-	-	8.15%	10,423
International Moscow Bank	-	-	-	-	9%	5,212
Current portion of long-term loans (Note 28)	9.34%	(85,287)	-	-	-	(25,100)
Total long-term loans		**160,780**		**82,922**		**79,351**

2007

Raiffeisen Bank – The Group entered into a number of credit line agreements allowing borrowings of up to RUB 335,000 thousand (USD 13,648 thousand) maturing between June-July 2009. The amount outstanding as of December 31, 2007 is RUB 335,000 thousand (USD 13,648 thousand) plus interest accrued of RUR 931 thousand (USD 38 thousand). The credit lines were unsecured as of December 31, 2007. Interest payable is based on Mosprime + 2.70%.

Bonds – 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 December 31, 2007 is RUB 3,631,233 thousand (USD 147,935 thousand), net of RUB 19,717 thousand of direct issue costs (USD 803 thousand) plus accrued interest of RUB 76,679 thousand (USD 3,124 thousand). The bonds are listed on the Moscow Interbank Currency Exchange (“MICEX”). Bonds of RUB 1,368,767 thousand (USD 55,763 thousand) of the issue were purchased in the open market and are held by CJSC “Tander”.

2006

Bonds – 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 December 31, 2006 was RUB 1,915,828 thousand, net of RUB 13,099 thousand of direct issue costs (USD 72,262 thousand) plus accrued interest of RUB 19,262 thousand (USD 732 thousand). Interest is payable twice a year in May and November. The bonds are listed on “MICEX”.

Sberbank, Volgo-Vjatskij branch – In September 2006 the Group entered into a credit agreement for borrowings of up to RUB 144,000 thousand (USD 5,469 thousand) maturing in March 2008. The credit line was collateralized by merchandise with an approximate book value of RUB 124,661 thousand (USD 4,734 thousand) and fixed assets with an approximate book value of RUB 63,084 thousand (USD 2,396 thousand). The borrowings were fully repaid in 2007. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2007.

Uralsib Bank – During 2006, the Group entered into a line of credit agreement for borrowings of up to RUB 115,000 thousand (USD 4,367 thousand) maturing in 2008. The total amount outstanding as of December 31, 2006 was RUB 104,000 thousand (USD 3,950 thousand). The credit line was collateralized by merchandise with an approximate book value of RUB 91,938 thousand (USD 3,492 thousand) and fixed assets with an approximate book value of RUB 79,753 thousand (USD 3,029 thousand). The borrowings were fully repaid in 2007. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2007.

2005

Sberbank, Stavropol Branch – In December 2005 the Group secured a number of credit facilities totaling RUB 550,000 thousand (USD 19,109 thousand) maturing in June 2007. The facilities bore interest at 10% per annum. Merchandise with a book value of USD 23,681 thousand was pledged to collaterize the outstanding balance as of December 31, 2005. The borrowings were fully repaid in 2006. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2006.

Sberbank, Krasnodar Branch – In November-December 2005 the Group secured a number of credit facilities totaling RUB 300,000 thousand (USD 10,423 thousand) maturing in May 2007. These facilities were unsecured as of December 31, 2005. The borrowings were fully repaid in 2006. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2006.

International Moscow Bank – In September 2005 the Group entered into a credit agreement totaling RUB 150,000 thousand (USD 5,212 thousand) maturing in March 2007. Merchandise with a book value of USD 6,254 was pledged to collaterize the outstanding balance as of December 31, 2005. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2006.

25. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases as of December 31, 2007, 2006 and 2005 consisted of the following:

	Minimum lease payments 2007	Minimum lease payments 2006	Minimum lease payments 2005	Present value of minimum lease payments 2007	Present value of minimum lease payments 2006	Present value of minimum lease payments 2005
Amounts payable under finance leases						
Within one year	16,905	8,180	3,472	13,143	6,715	2,554
Between one and two years	13,203	5,063	2,846	11,024	4,679	2,433
Over two years	12,511	1,814	1,068	11,640	1,746	1,033
	42,619	15,057	7,386	35,807	13,140	6,020
Less: future finance charges	(6,759)	(1,847)	(1,438)	-	-	-
Effect of foreign exchange rates	(53)	(70)	72	-	-	-
Present value of lease payments	**35,807**	**13,140**	**6,020**	**35,807**	**13,140**	**6,020**
Less: Amount due for settlement within 12 months				(13,143)	(6,716)	(2,554)
Amount due for settlement after 12 months				**22,664**	**6,424**	**3,466**

The Group has entered into certain lease agreements with LLC “Hansa Leasing”, LLC “Raiffeisen-Leasing”, CJSC “Delta Leasing”, CJSC “Europlan” and LLC “Resotrust” for the rent of vehicles with an average lease term of 2.45 years. The average borrowing rate for 2007, 2006 and 2005 was 18%, 23% 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 lease 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.

26. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Trade payables to third parties	437,639	280,195	152,285
Trade payables to related parties (Note 29)	4	1,206	1,939
Total	**437,643**	**281,401**	**154,224**

The average credit period for purchases was 45 days in 2007, 39 in 2006 and 36 in 2005. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

27. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007	2006	2005
Accrued salaries and wages	23,893	14,670	8,560
Other accrued expenses	5,735	2,708	626
Unified Social Tax	4,122	3,288	1,969
Personal Income Tax	3,044	2,231	1,327
Property tax	2,765	1,307	419
Value Added Tax	1,064	3,197	8,143
Other payables to third parties	947	862	2,235
Other payables to related parties (Note 29)	853	178	-
Other taxes	389	195	54
Total	**42,812**	**28,636**	**23,333**

28. SHORT-TERM LOANS

Short-term loans as of December 31, 2007, 2006 and 2005 consisted of the following:

	Weighted average interest rate	2007	Weighted average interest rate	2006	Weighted average interest rate	2005
Sberbank, Krasnodar branch	7.71%	164,914	7.40%	36,049	8.00%	17,928
Bonds issued in 2005	9.34%	85,287	-	-	-	-
Sberbank, Severokavkazskiy branch	8.02%	43,416	7.42%	38,123	-	-
Raiffeisen Bank	8.93%	44,284	-	-	-	-
BSGV	9.03%	40,912	-	-	-	-
Deutche bank	11.00%	40,074	-	-	-	-
International Moscow Bank	9.39%	32,677	6.92%	31,243	8.71%	10,085
Gazprombank	10.00%	20,370	6.50%	26,585	-	-
Uralsib Bank	10.00%	10,959	8%	1,519	-	-
Sberbank, Volgo-Vjatskiy branch	10.00%	8,360	10.01%	1,905	-	-
Yugbank	6%	2,883	6.50%	-	8.00%	1,741
Kukushkin V.	0%	1,727	-		-	-
Edelveis	8%	174	-		-	-
Other short-term loans	0%	10	0%	760	0%	2,570
Alfa Bank	-	-	8.94%	18,998	8.94%	17,376
CJSC Ob'edinenniy capital	-	-	4.50%	2,705	-	-
Bank Vozrozhdenie	-	-	9.91%	1,045	-	-
Sberbank, Nizhniy Novgorod	-	-	5.00%	1,016	-	-
Short-term loans from related parties	-	-	0%	471	0%	19
Current portion of long-term loans (Note 24)	-	-	-	-	-	25,100
Total short-term loans		**496,047**		**160,419**		**74,819**

2007

Sberbank, Krasnodar branch – The Group entered into a number of credit agreements allowing borrowings of up to RUB 4,048,000 thousand (USD 164,914 thousand) maturing between January-April 2008. The credit lines were unsecured as of December 31, 2007.

Bonds – In November 2005 the Group issued bonds of RUB 2,000,000 thousand (USD 69,486 thousand) maturing in November 2008. Interest is payable twice a year in May and November. The bonds are listed on Moscow Interbank Currency Exchange ("MICEX").

Sberbank, Severokavkazskiy branch – The Group entered into a number of credit agreements for borrowings of up to RUB 1,065,000 thousand (USD 43,388 thousand) maturing between January-February 2008. The credit lines were unsecured as of December 31, 2007.

Raiffeisen Bank – The Group entered into a number of credit agreements for borrowings of up to RUB 1,085,000 thousand (USD 44,202 thousand) maturing in April 2008. The credit lines were unsecured as of December 31, 2007.

BSGV Bank – The Group entered into a number of credit agreements for borrowings of up to RUB 1,000,000 thousand (USD 40,740 thousand) maturing in May 2008. The credit lines were unsecured as of December 31, 2007.

Deutche bank – The Group issued promissory notes of RUB 1,034,048 thousand (USD 42,127 thousand) maturing in June 2008. The credit lines were unsecured as of December 31, 2007.

International Moscow Bank – The Group entered into a number of credit agreements for borrowings of up to RUB 1,000,000 thousand (USD 40,740 thousand) maturing between January-March 2008. The credit lines were unsecured as of December 31, 2007.

Gazprombank – The Group entered into a number of credit agreements for borrowings of up to RUB 1,000,000 thousand (USD 40,740 thousand) maturing in March 2008. The credit lines were unsecured as of December 31, 2007.

Uralsib Bank – The Group entered into a number of credit agreements for borrowings of up to RUB 335,000 thousand (USD 13,648 thousand) maturing between May – October 2008. The credit lines are collateralized by fixed assets with an approximate book value of RUR 15,018 thousand (USD 612 thousand), equipment with an approximate book value of RUR 112,461 thousand (USD 4,582 thousand) and merchandise with an approximate book value of RUR 399,644 thousand (USD 16,281 thousand).

Sberbank, Volgo-Vjatskiy branch – The Group entered into a number of credit agreements for borrowings of up to RUB 275,000 thousand (USD 11,203 thousand) maturing between March 2008-October 2008.The credit lines are collateralized by merchandise with approximate book value of RUR 459,060 thousand (USD 18,702 thousand) and equipment with approximate book value of RUR 42,530 thousand (USD 1,733 thousand).

Yugbank – The Group entered into a number of credit agreements maturing in March 2008. The total amount outstanding as of December 31, 2007 is RUB 70,596 thousand plus interest accrued of RUB 169 thousand (total amount of USD 2,883 thousand). The credit lines were unsecured as of December 31, 2007.

Kukushkin Vladimir Yur'evich – The Group entered into loan agreement maturing between January-March 2008. The loan is interest-free.

Edelveis -The Group entered into a number of credit agreements maturing in October 2008. The credit agreements were unsecured as of December 31, 2007.

In 2007 the Group has significantly increased the amount of short-term loans taken to serve the ongoing requirements of its expanding business. The Group intends to refinance these loans through the issuance of new equity in April 2008.

2006

Sberbank, Krasnodar branch - The Group repaid in full the amount outstanding as of December 31, 2005. During 2006 the Group entered into a number of credit agreements with total borrowing capacity of RUB 4,235,128 thousand (USD 160,841 thousand) maturing between April – December 2006 and between February – March 2007. The credit lines were unsecured as of December 31, 2006.

Sberbank, Severokavkazskiy branch - The Group entered into a number of non-renewable and overdraft credit agreements maturing between February 2006 – April 2007 for borrowings of up to RUB 1,000,000 thousand (USD 37,978 thousand). The credit lines were unsecured as of December 31, 2006.

International Moscow Bank - The Group repaid in full the amount outstanding as of December 31, 2005. In September-December 2006 the Group entered into a number of credit agreements allowing for borrowings of up to RUB 2,000,000 thousand (USD 75,956 thousand) maturing in November 2006 – March 2007. The credit lines were unsecured as of December 31, 2006.

Gazprombank - The Group entered into a credit agreement for up to RUB 700,000 thousand (USD 26,585 thousand) maturing in December 2007. The total amount outstanding as of December 31, 2006 is RUB 700,000 thousand (USD 26,585 thousand). The credit line was unsecured as of December 31, 2006.

Uralsib Bank – During 2006 the Group entered into a number of credit agreements allowing borrowings of up to RUB 495,000 thousand (USD 18,799 thousand) maturing in November 2006 – July 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 73,916 thousand (USD 2,807 thousand).

Sberbank, Volgo-Vjatskiy branch – The Group entered into a number of credit agreements to borrow up to RUB 120,000 thousand (USD 4,557 thousand) maturing in August 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 52,211 thousand (USD 1,983 thousand).

Yugbank – During 2006 the Group repaid in full the amount outstanding as of December 31, 2005.

Alfa Bank - The Group repaid in full the amount outstanding as of December 31, 2005. In December 2005 the Group entered into a number of credit agreements of RUB 4,115,000 thousand (USD 156,279 thousand) maturing between May 2006 – February 2007. The credit lines were collateralized by the pledge of equipment with an approximate book value of RUB 41,502 thousand (USD 1,576 thousand), merchandise with an approximate book value of RUB 294,247 thousand (USD 11,175 thousand).

CJSC Ob'edinenniy capital – The Group entered into a number of credit agreements for borrowings of up to RUB 70,000 thousand (USD 2,658 thousand) maturing in September 2007. The credit lines were unsecured as of December 31, 2006.

Sberbank, Nizhnjy Novgorod - The Group entered into a credit agreement for borrowings of up to RUB 212,908 thousand (USD 8,086 thousand) maturing in August 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 57,381 thousand (USD 2,179 thousand).

Bank Vozrozhdenie - The Group entered into a credit agreement for borrowings of up to RUB 187,814 thousand (USD 7,113 thousand) maturing in July 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 33,732 thousand (USD 1,281 thousand).

Other short-term loans consist of various loans received from enterprises and individuals with principals varying from RUB 2 thousand (USD 0.08 thousand) to RUB 9,703 thousand (USD 368 thousand). The average principal is RUB 1,993 thousand (USD 75 thousand). All such loans were interest-free, unsecured and repayable in 2007. The effect of discounting is not significant.

During 2006 the Group obtained and repaid a number of short-term loans. The respective interest rates varied from 5% to 11.5%.

2005

Sberbank, Krasnodar Branch - The Group entered into a credit agreement of RUB 516,000 thousand (USD 17,928 thousand) maturing in April 2006. This credit line was unsecured as of December 31, 2005.

International Moscow Bank - The Group entered into a number of credit agreements of RUB 290,000 thousand (USD 10,076 thousand) bearing interest from 7.95% to 9.15% per annum and maturing in May-August 2006. The credit lines were collateralized by the pledge of merchandise with a book value of USD 8,338 thousand.

Yugbank – The Group entered into a loan agreement of RUB 50,000 thousand (USD 1,737 thousand) maturing in January 2006. This loan was unsecured as of December 31, 2005.

Alfa Bank - The Group entered into a number of credit agreements of RUB 580,000 thousand (USD 20,151 thousand) bearing interest from 8.08% to 9.50% per annum and maturing in January-March 2006. The credit lines were collateralized by the pledge of merchandise with a book value of USD 10,122 thousand.

Other short-term loans consist of various loans received from enterprises and individuals with principals varying from RUB 443 (USD 15) to RUB 15,987 thousand (USD 555 thousand). The average principal is RUB 282 thousand (USD 10 thousand). All such loans were interest free, unsecured and repayable in 2006.

29. 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 April-December 2007 and August-December 2011, are interest free and unsecured. These loans are stated at cost as the discounting effect is not significant. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

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 December 31, 2007, 2006 and 2005 consisted of the following:

	2007		2006		2005	
	Other related parties	Parent Company	Other related parties	Parent Company	Other related parties	Parent Company
Deposits	-	-	10,634	-	-	-
Trade receivables	3	-	-	-	-	-
Advances paid	21	-	-	-	502	-
Other receivables	2,758	-	432	-	241	-
Trade payables	4	-	1,206	-	1,939	-
Other payables	853	-	178	-	-	-
Loans given	12	-	27	-	-	-
Loans obtained	-	-	-	471	-	-

The Group's transactions with related parties for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007		2006		2005	
	Other related parties	Parent Company	Other related parties	Parent Company	Other related parties	Parent Company
Purchases of merchandise	-	-	90	-	6	-
Purchases of property, plant and equipment	36,787	-	25,475	-	1,492	-
Rent received	256	-	255	-	158	-
Loans obtained	-	-	-	438	61	1
Sales of merchandise	4,084	-	7,994	-	7,024	-
Other sales	2,692	-	-	-	-	-
Rent paid	557	-	648	-	716	-
Interest on deposit	216	-	1,035	-	-	-
Loans given	-	-	27	-	-	-

Short-term employee benefits of Group management and members of the Board of Directors of Group companies for 2007, 2006 and 2005 were USD 1,054 thousand, USD 541 thousand and USD 420 thousand, respectively.

30. CAPITAL AND RENT COMMITMENTS

As of December 31, 2007, 2006 and 2005 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	2007	2006	2005
Commitments for the acquisition of property, plant and equipment	21,167	33,120	14,137

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

	2007	2006	2005
Within one year	89,796	91,224	25,612
In the second to fifth years inclusive	98,237	60,204	26,536
After five years	7,926	14,357	1,955
Total	**195,959**	**165,785**	**54,103**

31. EVENTS AFTER THE BALANCE SHEET DATE

In February 2008 the Group entered into a number of additional credit agreements maturing in 2009 for RUR 4,350,000 thousand (USD 177,217 thousand).

32. 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 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.

33. 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. The long-term bonds issued by the Group in 2007 are listed on the Moscow Interbank Currency Exchange and their fair value as at 31 December 2007 for bonds issued in 2005 was USD 80,546 thousand and USD 143,213 thousand for bonds issued in 2007.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity ratios.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 24 and 28, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 23.

Gearing ratio

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of up to 100% determined as the proportion of net debt to equity. The Group expects to decrease its gearing ratio through the issue of new equity.

The gearing ratio at December, 31 was as follows:

	2007	**2006**	**2005**
Debt	656,827	243,341	154,170
Cash and cash equivalents	(120,959)	(89,789)	(45,771)
Net debt	535,868	153,552	108,399
Equity	428,347	305,239	50,198
Net debt to equity ratio	125%	50%	216%

Debt is defined as long- and short-term borrowings. Equity includes all capital and reserves of the Group.

Categories of financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 5 "Significant Accounting Policies".

	2007	**2006**	**2005**
Financial assets			
Loans and receivables	33,844	13,200	3,025
Financial liabilities			
Amortised cost	1,175,862	570,251	344,948

Foreign currency risk management

The Group is not exposed to foreign currency risks as no activities and business operations are performed in foreign currencies and no subsidiaries of the Group are located outside the Russian Federation.

Interest rate risk management

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.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed below.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest have been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by USD 432 thousand (2006: decrease/increase by USD 4 thousand).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. 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.

Trade receivables consist of a relatively small number of wholesale customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the years presented.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built a liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate, %	**Less than 1 month**	**1-3 month**	**3 month to 1 year**	**1-5 years**	**5> years**	**Total**
2007							
Non-interest bearing	-	364,920	101,831	-	21	-	466,772
Finance lease liability	-	1,625	3,142	12,139	25,714	-	42,620
Variable interest rate instruments	8.00	922	42,075	50,210	7,502	-	100,709
Fixed interest rate instruments	7.37	2,312	198,506	247,367	200,440	-	648,625
		369,779	**345,554**	**309,716**	**233,677**	**-**	**1,258,726**
2006							
Non-interest bearing	-	224,562	65,021	-	-	-	289,583
Finance lease liability	-	769	1,486	5,925	6,877	-	15,057
Variable interest rate instruments	7.50	83	143	643	12,432	-	13,301
Fixed interest rate instruments	8.85	1,279	91,521	74,450	84,259	-	251,509
		226,693	**158,171**	**81,018**	**103,568**	**-**	**569,450**

	Weighted average effective interest rate, %	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	5> years	Total
2005							
Non-interest bearing	-	122,762	32,795	-	-	-	155,557
Finance lease liability	-	327	611	2,536	3,912	-	7,386
Variable interest rate instruments	7.50	3	-	-	-	-	3
Fixed interest rate instruments	8.85	7,605	16,444	35,424	129,772	-	189,245
		130,697	**49,850**	**37,960**	**133,684**	**-**	**352,191**

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate, %	Less than 1 month	1-3 month	3 month to 1 year	1-5 years	5> years	Total
2007							
Non-interest bearing	-	3,202	811	206	-	166	4,385
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	19.00	1,399	7,481	4,897	70	-	13,847
		4,601	**8,292**	**5,103**	**70**	**166**	**18,232**
2006							
Non-interest bearing	-	9,050	12,966	157	1	144	22,318
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	11.00	120	2,041	178	443		2,782
		9,170	**15,007**	**335**	**444**	**144**	**25,100**
2005							
Non-interest bearing	-	2,668	324	36	-	5	3,033
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-	-
		2,668	**324**	**36**	**-**	**5**	**3,033**

The Group has access to financing facilities of RUR 10,143,000 thousand (USD 413,221 thousand) of which RUR 921,000 thousand (USD 37,521 thousand) remains unused at December 31, 2007. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.