# Open Joint Stock Company “Magnit” and its subsidiaries

## Independent Auditor’s Report

**Consolidated Financial Statements**
Years Ended December 31, 2009 and 2008

# OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

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# OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

## STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The following statement, which should be read in conjunction with the independent auditor’s responsibilities stated in the independent auditor’s 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, 2009 and 2008, the results of its operations, cash flows and changes in shareholders’ equity for the years then ended, in compliance with International Financial Reporting Standards (“IFRS”).

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
- Making an assessment of the Group’s ability to continue as a going concern.

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
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements on pages 4-34 for the years ended December 31, 2009 and 2008 were approved by the Board of Directors of Open Joint Stock Company “Magnit” and authorized to be signed and issued on behalf of the Board on March 24, 2010 by:

**Sergey Galitskiy**
Chief Executive Officer

**Khachatur Pombukhchan**
Chief Financial Officer

March 24, 2010
Moscow, Russia

Deloitte.

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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 statements of financial position as at December 31, 2009 and 2008 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of 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.

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## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2009 and 2008 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 24, 2010

# OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
***(In thousands of US Dollars)***

| | Notes | 2009 | 2008 |
|---|---|---|---|
| REVENUE | 6 | 5,354,488 | 5,347,806 |
| COST OF SALES | 7 | (4,097,215) | (4,188,271) |
| GROSS PROFIT | | 1,257,273 | 1,159,535 |
| Selling expenses | 8 | (45,506) | (44,185) |
| General and administrative expenses | 9 | (817,859) | (806,103) |
| Investment income | | 1,835 | 6,896 |
| Finance costs | 10 | (53,539) | (60,176) |
| Other income | | 11,666 | 8,275 |
| Other expenses | | (2,176) | (4,653) |
| Foreign exchange gain | | 3,006 | - |
| | | (902,573) | (899,946) |
| PROFIT BEFORE INCOME TAX | | 354,700 | 259,589 |
| INCOME TAX | 11 | (79,546) | (71,674) |
| PROFIT FOR THE YEAR | | 275,154 | 187,915 |
| OTHER COMPREHENSIVE INCOME | | | |
| Loss on translation of foreign operations | | (28,173) | (186,926) |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, net of tax | | (28,173) | (186,926) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 246,981 | 989 |
| PROFIT FOR THE PERIOD ATTRIBUTABLE TO: | | | |
| Owners of the parent | | 275,154 | 187,625 |
| Minority interests | | - | 290 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | | 246,981 | 893 |
| Minority interests | | - | 96 |
| Basic and diluted earnings per share (in US Dollars per share) | 12 | 3.27 | 2.34 |

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.

Signed on behalf of the Board:

**Sergey Galitskiy**
Chief Executive Officer

**Khachatur Pombukhchan**
Chief Financial Officer

March 24, 2010
Moscow, Russia

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT DECEMBER 31, 2009 AND 2008

***(In thousands of US Dollars)***

| | Notes | December 31, 2009 | December 31, 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 13 | 1,638,460 | 1,331,064 |
| Land lease right | | 24,812 | 18,037 |
| Intangible assets | 14 | 3,718 | 1,776 |
| Total non-current assets | | 1,666,990 | 1,350,877 |
| CURRENT ASSETS: | | | |
| Merchandise | 15 | 415,152 | 323,336 |
| Trade accounts receivable | | 243 | 907 |
| Advances paid | 16 | 31,045 | 26,478 |
| Other receivables | 17 | 32,913 | 15,327 |
| Prepaid expenses | 18 | 4,541 | 2,167 |
| Short-term investments | 19 | 6,579 | 7,842 |
| Other current assets | | - | 2,066 |
| Cash and cash equivalents | 20 | 371,045 | 115,055 |
| Total current assets | | 861,518 | 493,178 |
| **TOTAL ASSETS** | | **2,528,508** | **1,844,055** |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY | | | |
| Share capital | 21 | 32 | 30 |
| Share premium | 21 | 1,007,823 | 646,028 |
| Treasury shares | 21 | (5,557) | (5,557) |
| Foreign currency translation reserve | | (173,802) | (145,629) |
| Retained earnings | | 596,340 | 341,916 |
| Equity attributable to equity holders of the parent | | 1,424,836 | 836,788 |
| Total equity | | 1,424,836 | 836,788 |
| NON-CURRENT LIABILITIES: | | | |
| Long-term bonds | 23 | 124,672 | 123,040 |
| Long-term obligations under finance leases | 24 | 27,600 | 39,624 |
| Deferred tax liabilities | 11 | 27,254 | 18,428 |
| Total non-current liabilities | | 179,526 | 181,092 |
| CURRENT LIABILITIES: | | | |
| Trade accounts payable | 25 | 572,324 | 484,857 |
| Other payables and accrued expenses | 26 | 80,145 | 92,266 |
| Income tax payable | | 5,088 | 5,847 |
| Short-term obligations under finance leases | 24 | 28,433 | 21,825 |
| Short-term loans | 28 | 238,156 | 221,380 |
| Total current liabilities | | 924,146 | 826,175 |
| TOTAL LIABILITIES | | 1,103,672 | 1,007,267 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,528,508** | **1,844,055** |

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

***(In thousands of US Dollars)***

| | Share capital | Share premium | Treasury shares | Foreign currency translation reserve | Retained earnings | Equity attributable to share-holders of the parent | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 01, 2008** | **26** | **179,427** | **-** | **41,103** | **206,405** | **426,961** | **1,386** | **428,347** |
| Total comprehensive income for the period | - | - | - | (186,732) | 187,625 | 893 | 96 | 989 |
| Additional issue of shares, net of issuance costs | 4 | 466,601 | - | - | - | 466,605 | - | 466,605 |
| Purchase of minority interest in LLC “Magnit Nizhniy Novgorod” (Note 29) | | | | | (52,114) | (52,114) | (1,482) | (53,596) |
| Purchase of treasury shares | | | (5,557) | | | (5,557) | | (5,557) |
| **Balance at December 31, 2008** | **30** | **646,028** | **(5,557)** | **(145,629)** | **341,916** | **836,788** | **-** | **836,788** |
| **Balance at January 01, 2009** | **30** | **646,028** | **(5,557)** | **(145,629)** | **341,916** | **836,788** | **-** | **836,788** |
| Total comprehensive income for the period | **-** | | **-** | (28,173) | 275,154 | 246,981 | - | 246,981 |
| Payment of additional contingent consideration for purchase of LLC “Magnit Nizhniy Novgorod” (Note 29) | - | - | - | - | (794) | (794) | - | (794) |
| Dividends declared (Note 22) | **-** | **-** | **-** | **-** | (19,936) | (19,936) | - | (19,936) |
| Additional issue of shares, net of issuance costs (Note 21) | 2 | 361,795 | - | **-** | - | 361,797 | - | 361,797 |
| **Balance at December 31, 2009** | **32** | **1,007,823** | **(5,557)** | **(173,802)** | **596,340** | **1,424,836** | **-** | **1,424,836** |

The notes on pages 9 to 34 form an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

***(In thousands of US Dollars)***

| | Notes | 2009 | 2008 |
|---|---|---|---|
| **OPERATING ACTIVITIES:** | | | |
| Profit before tax | | 354,700 | 259,589 |
| Adjustments for: | | | |
| Depreciation | | 101,443 | 87,545 |
| Amortization | | 1,640 | 1,251 |
| Loss on disposal of property, plant and equipment | | 768 | 1,962 |
| Provision for doubtful receivables | | 1,405 | 1,193 |
| Foreign exchange gain | | (3,006) | - |
| Finance cost | | 53,539 | 60,176 |
| Investment income | | (1,835) | (6,896) |
| Operating cash flow before movements in working capital | | 508,654 | 404,820 |
| Decrease in trade accounts receivable | | 623 | 1,676 |
| (Increase)/decrease in advances paid | | (4,567) | 22,945 |
| (Increase)/decrease in other receivables | | (18,983) | 9,189 |
| (Increase)/decrease in prepaid expenses | | (2,374) | 287 |
| (Increase)/decrease in merchandise | | (91,816) | 7,073 |
| Increase in trade accounts payable | | 87,467 | 47,214 |
| Increase in other payables and accrued expenses | | 21,915 | 49,454 |
| Cash generated by operations | | 500,919 | 542,658 |
| Income tax paid | | (71,388) | (62,431) |
| Interest paid | | (53,369) | (60,156) |
| Net cash generated by operating activities | | 376,162 | 420,071 |
| **INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment | | (422,368) | (566,531) |
| Purchase of intangible assets | | (3,571) | (2,270) |
| Purchase of minority interest in LLC “Magnit-Nizhniy Novgorod” | | (32,219) | (17,981) |
| Proceeds from disposal of property, plant and equipment | | 6,973 | 3,824 |
| Loans provided | | (25,943) | (121,944) |
| Proceeds from repayment of loans provided | | 29,041 | 129,467 |
| Net cash used in investing activities | | (448,087) | (575,435) |
| **FINANCING ACTIVITIES:** | | | |
| Proceeds from short-term borrowings | | 1,710,315 | 1,594,941 |
| Repayment of short-term borrowings | | (1,691,899) | (1,834,786) |
| Dividends paid | | (17,530) | - |
| Purchase of treasury shares | | - | (5,557) |
| Repayment of obligations under finance leases | | (23,511) | (21,028) |
| Proceeds from issue of ordinary shares | | 370,738 | 479,874 |
| Payment for share issue costs | | (8,941) | (13,269) |
| Net cash generated by financing activities | | 339,172 | 200,175 |
| EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | | (11,257) | (50,715) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 267,247 | 44,811 |
| CASH AND CASH EQUIVALENTS, beginning of the period | 20 | 115,055 | 120,959 |
| CASH AND CASH EQUIVALENTS, end of the period | 20 | 371,045 | 115,055 |

The notes on pages 9 to 34 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 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's retail operations are operated through convenience stores and through hypermarkets. The Group's wholesale operations are insignificant and are expected to be wound down in the near term.

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., 350072 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 2009 | Ownership Interest 2008 |
|---|---|---|---|
| CJSC "Tander" | Food retail and wholesale | 100% | 100% |
| LLC "Magnit Finance" | Issuer of the Group's bonds | 100% | 100% |
| LLC "BestTorg" | Food retail in the city of Moscow and the Moscow region | 100% | 100% |
| LLC "Tander-Magnit" | Food retail in the Moscow region | 100% | 100% |
| LLC "Selta" | Transportation services for the Group | 100% | 100% |
| LLC "Project M" | Food retail in Saint-Petersburg | 100% | 100% |
| LLC "Magnit Nizhniy Novgorod" | Holding company of LLC "Tandem" | 100% | 100% |
| LLC "Tandem" | Food retail in Nizhniy Novgorod | 100% | 100% |
| LLC "Alkotrading" | License holder for alcohol sales | 100% | 100% |

At December 31, 2009 and 2008 the shareholding structure of the Company was as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Shareholder | Number of shares | Ownership interest, % | Number of shares | Ownership interest, % |
| Galitskiy S.N. | 36,074,229 | 40.54% | 36,563,000 | 43.92% |
| Labini Investments Ltd. (Cyprus) | 3,233,025 | 3.63% | 4,064,512 | 4.88% |
| Lavreno Ltd. (Cyprus) | 4,786,000 | 5.38% | 5,099,964 | 6.13% |
| Gordeichuk V.E. | 2,599,100 | 2.92% | 2,999,100 | 3.60% |
| Other (Group management) | 903,774 | 1.02% | 1,942,760 | 2.33% |
| Free float | 41,378,945 | 46.51% | 32,576,324 | 39.14% |
| **Total** | **88,975,073** | **100%** | **83,245,660** | **100%** |

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all of the following new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009.

**New or revised Standards and Interpretations**

IAS 1 (as revised in 2007) Presentation of Financial Statements

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 19 Employee benefits

IAS 27 Consolidated and Separate Financial Statements

IAS 33 Earnings per Share

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (amendment)

IAS 34 Interim Financial Reporting

IAS 36 Impairment of Assets

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Measurement

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (amendment)

IFRS 7 Financial Instruments: Disclosures (amendment)

IFRS 8 Operating Segments

IAS 23 Borrowing Costs – Revised

IFRIC 13 “Customer Loyalty Programs”

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

There was material effects on the financial statements from the adoption of these standards.

IAS 1(R) has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosure.

IFRS 8 requires disclosure of financial information about the Group’s operating segments based on the internal management reporting system and replaces the requirements to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group’s chief operating decision maker reviews the Group’s operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores and hypermarkets, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products and therefore, the Group has aggregated all of the individual stores into one reporting segment. Segment information has not been presented in these consolidated financial statements as management’s internal reporting system is prepared on the same basis as these consolidated financial statements,

Amendments to IAS 23 Borrowing costs eliminated the option to expense all borrowing costs when incurred. From the date of adoption of this revised standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. The change has been applied prospectively from January 1, 2009 to interest expenses incurred on or after January 1, 2009 in accordance with general transitional provisions.

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** |
|---|---|
| Amendment to IAS 1 "Presentation of Financial Statements" | January 1, 2010 |
| Amendment to IAS 7 "Statement of Cash Flows" | January 1, 2010 |
| Amendment to IAS 17 "Leases" | January 1, 2010 |
| IAS 21 "The Effects of Changes in Foreign Exchange Rates" | July 1, 2009 |
| Amendment to IAS 24 "Related Party Disclosures" | January 1, 2011 |
| IAS 27 "Consolidated and Separate Financial Statements" | July 1, 2009 |
| Amendment to IAS 32 "Financial Instruments: Presentation" | February 1, 2010 |
| Amendment to IAS 36 "Impairment of Assets" | January 1, 2010 |
| Amendment to IAS 32 "Financial Instruments: Recognition and Measurement" | January 1, 2010 |
| IAS 38 "Intangible Assets" | July 1, 2009 |
| IAS 39 "Financial Instruments: Recognition and Measurement" | November 5, 2009 |
| Amendment to IFRS 2 "Share-based Payments" | January 1, 2010 |
| IFRS 3 "Business Combinations" | July 1, 2009 |
| Amendment to IFRS 5 "Non-current Assets Held For Sale and Discontinued Operations" | January 1, 2010 |
| IFRS 7 "Financial Instruments: Disclosures" | July 1, 2009 |
| Amendment to IFRS 8 "Operating Segments" | January 1, 2010 |
| IFRS 9 "Financial Instruments" | January 1, 2013 |
| IFRIC 17 "Distributions of Non-cash Assets to Owners | July 1, 2009 |
| IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" | July 1, 2010 |

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

## 3. PRESENTATION OF FINANCIAL STATEMENTS

***Statement of Compliance*** – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

***Basis of Presentation*** – The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

***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 Rouble ("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 (Group 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 statement of financial position presented;
- All items included in the consolidated statement of changes in equity, other than net profit for the period, are translated at historical exchange rates;
- All income and expenses in each consolidated statement of comprehensive income are translated at the average exchange rates for the period presented; and
- In the consolidated statement of cash flow, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at the average exchange rates for the periods presented.

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.

***Earnings per Share*** – Earnings per share have been determined using the weighted average number of the Group's shares outstanding during the period ended December 31, 2009 and December 31, 2008, respectively. The Group does not have any potentially dilutive equity instruments.

## 4. 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 period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

***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 statement of comprehensive income.

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.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

***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 reflected through a retrospective restatement of the financial statements 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 statement of financial position 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 statement of comprehensive income.

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, which is the higher of fair value less costs to sell or value in use, 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.

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

***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 the statement of comprehensive income 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 statement of comprehensive income.

***Land Lease Rights*** – Land lease right acquired as part of hypermarket development projects is separately reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The useful life is estimated to be 49 years.

***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 profit and loss 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 | 4 |
| Lease rights (convenience stores) | 6 |
| Software | 2 |
| Trade marks | 9 |
| Other | 3 |

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

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

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss. 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 profit and loss, 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 statement of financial position 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 profit and loss, 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 reporting 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 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.

***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 statement of comprehensive income 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 reporting 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.

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 reporting 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 reporting 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 profit and loss, except when they relate to items credited or debited outside profit or loss, either in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, either in other comprehensive income or 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 profit and loss as incurred. There is no unfunded element at the reporting date.

***Bonus Plan*** – In 2009, the Group initiated a bonus program whereby the Group has agreed to pay, at its discretion, cash bonuses to employees after the individual completes two years of service. The amount of the cash bonus, if paid, will be based on a the market price of the Group's shares on that date times a fixed number of shares as indicated in the employment contract of each individual. The compensation expense is recognized over the two-year service period based on its assessment that it is probable the amounts will be paid. The amount of the cash liability is remeasured each period with any changes recognised in profit or loss at the end of each reporting period in proportion to the service period already provided by the employee. The remaining change in liability is recognised over the residual service period. The liability will also be remeasured at the date of settlement, with any changes recognised in profit or loss.

The fair value of the liability is determined based on the market value of shares at the end of each reporting period adjusted for expected employee turnover.

***Segment Reporting*** – The Group's business operations are located in the Russian Federation and relate primarily to retail sales of consumer goods. Although the Group operates through different types of stores and in various states within the Russian Federation, the Group's chief operating decision maker  reviews the Group's operations and allocates resources on an individual store-by-store basis. The Group has assessed the economic characteristics of the individual stores, including both convenience stores and hypermarkets, and determined that the stores have similar margins, similar products, similar types of customers and similar methods of distributing such products. Therefore, the Group considers that it only has one reportable segment under IFRS 8.

***Seasonality*** – The Group's business operations are not influenced by seasonality factors, except for the increase of business activities before the New Year holidays.

***Borrowing Costs*** – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, other borrowing costs are recognised in profit or loss in the period in which they are incurred.  A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset.  The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

**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 at FVTPL where the financial asset is either held for trading or it is designated 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 profit and loss. The net gain or loss recognised in the profit and loss 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. 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 reporting 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 reporting 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 profit and loss.

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 profit and loss 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.

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

### 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 CGU.

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.

Despite the current downturn in the economic environment, the Group has assumed continuous market growth and increase in demand for its products. Critical assumptions within the cash flow model are that the Group operates in a low-margin retail market and that in the current economic environment the volume and demand from customers will increase as a result of more cost-conscious consumers.

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.

### 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 are recognized prospectively in the profit and loss.

### 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.

The Group obtains various types of vendor allowances.  Current Russian tax legislation is unclear if the amount of VAT refund relating to goods purchased should be decreased by the amount of VAT on such allowances. The Group believes that its interpretation of the current tax legislation is appropriate and no additional tax liabilities arise in respect of allowances from suppliers. Further Group position on this matter will depend on the court practice and amendments of the legislation related to bonuses from suppliers.

## 6. REVENUE

Revenue for the years ended December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Retail | 5,346,404 | 5,326,007 |
| Wholesale | 8,084 | 21,237 |
| Wholesale to related party | - | 562 |
| **Total** | **5,354,488** | **5,347,806** |

## 7. COST OF SALES

Cost of sales, classified by function, for the years ended December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Retail | 4,089,455 | 4,167,832 |
| Wholesale | 7,760 | 20,439 |
| **Total** | **4,097,215** | **4,188,271** |

Cost of sales, classified by nature, for the years ended December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Cost of goods sold | 3,989,489 | 4,083,471 |
| Transportation expenses | 68,820 | 79,463 |
| Losses due to inventory shortages | 38,906 | 25,337 |
| **Total** | **4,097,215** | **4,188,271** |

Cost of sales are reduced by rebates and promotional bonuses received from suppliers.

## 8. SELLING EXPENSES

Selling expenses for the years ended December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Depreciation | 18,125 | 16,415 |
| Packaging and raw materials | 15,357 | 14,878 |
| Advertising | 8,397 | 6,724 |
| Fuel | 3,415 | 4,919 |
| Transportation | 212 | 1,249 |
| **Total** | **45,506** | **44,185** |

## 9. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Payroll | 375,090 | 374,559 |
| Rent and utilities | 179,280 | 183,427 |
| Payroll related taxes | 89,982 | 90,625 |
| Depreciation | 83,318 | 71,130 |
| Taxes, other than income tax | 21,446 | 20,158 |
| Repair and maintenance | 16,661 | 17,230 |
| Bank services | 14,126 | 11,122 |
| Provision for unused vacation | 6,689 | 5,034 |
| Security | 6,414 | 6,651 |
| Bad debt provision | 1,405 | 1,193 |
| Other expenses | 23,448 | 24,974 |
| **Total** | **817,859** | **806,103** |

## 10. FINANCE COSTS

Finance costs for the years ended December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Interest on loans | 35,610 | 30,723 |
| Interest on bonds | 9,533 | 19,026 |
| Interest on finance leases | 11,664 | 10,427 |
| **Total interest expense for financial liabilities** | **56,807** | **60,176** |
| Less: amounts included in the cost of qualifying assets | (3,268) | - |
| **Total** | **53,539** | **60,176** |

## 11. INCOME TAX

The Group’s income tax expense for the years ended December 31, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|---|---|---|
| Current tax | 70,629 | 65,506 |
| Deferred tax | 8,917 | 6,168 |
| **Total income tax expense** | **79,546** | **71,674** |

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 2009 and 2008 in the Group’s deferred tax position are as follows:

| | 2009 | 2008 |
|---|---|---|
| Liability at the beginning of the year | 18,428 | 15,811 |
| Charge for the year | 8,917 | 9,744 |
| Tax rate change from 24% to 20% | - | (3,576) |
| Currency adjustment | (91) | (3,551) |
| **Deferred tax liability at the end of the year** | **27,254** | **18,428** |

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as at December 31, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|---|---|---|
| **Deferred tax assets** | | |
| Accrued expenses | (3,040) | - |
| Other | (3,933) | - |
| **Deferred tax liabilities** | | |
| Property, plant and equipment | 34,227 | 17,344 |
| Other | - | 1,084 |
| **Net deferred tax liability** | **27,254** | **18,428** |

The statutory tax rate effective in the Russian Federation, the location of all of the Group's entities, was 20% in 2009 (2008: 24%). In November 2008, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 24% to 20% effective from January 1, 2009.

The increase in deferred tax liability in property, plant and equipment is explained by the fact that the Group started to use tax concession to deduct from 10% to 30% of the cost of newly purchased or constructed objects of property, plant and equipment.

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 20% to the actual expense recorded in the Group's profit and loss:

| | 2009 | 2008 |
|---|---|---|
| Profit before tax | 354,700 | 259,589 |
| Theoretical income tax expense at 20% | (70,940) | (62,301) |
| Adjustments due to: | | |
| Tax effect of losses due to inventory shortages not deductible in determining taxable profit | (5,232) | (3,408) |
| Tax effect of other expense that is not deductible in determining taxable profit | (3,374) | (9,541) |
| Deferred tax effect of change in tax rate from 24% to 20% | - | 3,576 |
| **Income tax expense** | **(79,546)** | **(71,674)** |

## 12. EARNINGS PER SHARE

Earnings per share for the years ended December 31, 2009 and 2008 have been calculated on the basis of the net profit for the year and the weighted average number of common shares outstanding during the year.

The calculation of earnings per common share for the years ended December 31, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|---|---|---|
| Profit for the year attributable to equity holders of the parent | 275,154 | 187,625 |
| Weighted average number of shares (in thousand of shares) | 84,235 | 80,115 |
| **Basic and diluted earnings per share (in US Dollars)** | **3.27** | **2.34** |

The Group does not have any potentially dilutive equity instruments.

## 13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2009 and 2008 consisted of the following:

| | Land | Buildings | Machinery and equipment | Other assets | Construction in progress | Equipment under finance lease | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At January 1, 2008 | 33,826 | 371,483 | 235,074 | 51,761 | 431,339 | 63,865 | 1,187,348 |
| Additions | 42,255 | - | 112,562 | 8,160 | 385,517 | 63,726 | 612,220 |
| Transfers | - | 474,000 | - | - | (474,000) | - | - |
| Disposals | (47) | (1,456) | (2,985) | (565) | (2,297) | (127) | (7,477) |
| Transfer from lease to fixed assets | - | - | - | 17,759 | - | (17,759) | - |
| Currency adjustment | (12,067) | (135,990) | (55,555) | (12,422) | (59,703) | (17,569) | (293,306) |
| At December 31, 2008 | 63,967 | 708,037 | 289,096 | 64,693 | 280,856 | 92,136 | 1,498,785 |
| | | | | | | | |
| At January 1, 2009 | 63,967 | 708,037 | 289,096 | 64,693 | 280,856 | 92,136 | 1,498,785 |
| Additions | 20,153 | 5 | 100,253 | 19,709 | 275,473 | 22,899 | 438,492 |
| Transfers | - | 258,453 | - | - | (258,453) | - | - |
| Disposals | (230) | (3,962) | (2,291) | (488) | (3,072) | (96) | (10,139) |
| Transfer from lease to fixed assets | - | - | - | 7,823 | - | (7,823) | - |
| Currency adjustment | (853) | (7,777) | (3,467) | (524) | (7,337) | (1,900) | (21,858) |
| At December 31, 2009 | 83,037 | 954,756 | 383,591 | 91,213 | 287,467 | 105,216 | 1,905,280 |
| | | | | | | | |
| **Accumulated Depreciation** | | | | | | | |
| At January 1, 2008 | - | (13,206) | (83,534) | (6,873) | - | (9,487) | (113,100) |
| Charge for the year | - | (18,845) | (50,368) | (7,894) | - | (10,438) | (87,545) |
| Eliminated on disposals | - | 364 | 1,139 | 177 | - | 11 | 1,691 |
| Transfer from lease to fixed assets | - | - | - | (7,721) | - | 7,721 | - |
| Currency adjustment | - | 4,247 | 21,886 | 3,122 | - | 1,978 | 31,233 |
| At December 31, 2008 | - | (27,440) | (110,877) | (19,189) | - | (10,215) | (167,721) |
| | | | | | | | |
| At January 1, 2009 | - | (27,440) | (110,877) | (19,189) | - | (10,215) | (167,721) |
| Charge for the year | - | (26,291) | (55,919) | (5,912) | - | (13,321) | (101,443) |
| Eliminated on disposals | - | 880 | 1,275 | 228 | - | 15 | 2,398 |
| Transfer from lease to fixed assets | - | - | - | (2,640) | - | 2,640 | - |
| Currency adjustment | - | (459) | 493 | 142 | - | (230) | (54) |
| At December 31, 2009 | - | (53,310) | (165,028) | (27,371) | - | (21,111) | (266,820) |
| | | | | | | | |
| **Net Book Value** | | | | | | | |
| **At December 31, 2008** | **63,967** | **680,597** | **178,219** | **45,504** | **280,856** | **81,921** | **1,331,064** |
| | | | | | | | |
| **At December 31, 2009** | **83,037** | **901,446** | **218,563** | **63,842** | **287,467** | **84,105** | **1,638,460** |

At 31 December 2009, the weighted average capitalisation rate on funds borrowed is 11.78% per annum.

## 14. INTANGIBLE ASSETS

Intangible assets as at December 31, 2009 and 2008 consisted of the following:

| | Licenses | Lease rights | Software | Trade mark | Other | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At January 1, 2008 | 266 | 657 | 386 | 142 | 186 | 1,637 |
| Additions | 357 | 167 | 1,700 | 7 | 39 | 2,270 |
| Disposals | (161) | - | (220) | (1) | (25) | (407) |
| Currency adjustment | (77) | (133) | (292) | (25) | (33) | (560) |
| At December 31, 2008 | 385 | 691 | 1,574 | 123 | 167 | 2,940 |
| | | | | | | |
| At January 1, 2009 | 385 | 691 | 1,574 | 123 | 167 | 2,940 |
| Additions | 304 | 697 | 2,493 | 11 | 66 | 3,571 |
| Disposals | (121) | (109) | (393) | - | (30) | (653) |
| Currency adjustment | (9) | 9 | 63 | (3) | (1) | 59 |
| At December 31, 2009 | 559 | 1,288 | 3,737 | 131 | 202 | 5,917 |
| | | | | | | |
| **Accumulated Amortization** | | | | | | |
| At January 1, 2008 | (93) | (151) | (153) | (47) | (90) | (534) |
| Charge for the year | (214) | (163) | (776) | (16) | (82) | (1,251) |
| Eliminated on disposals | 161 | - | 220 | 1 | 23 | 405 |
| Currency adjustment | 21 | 49 | 111 | 11 | 24 | 216 |
| At December 31, 2008 | (125) | (265) | (598) | (51) | (125) | (1,164) |
| | | | | | | |
| At January 1, 2009 | (125) | (265) | (598) | (51) | (125) | (1,164) |
| Charge for the year | (173) | (226) | (1,179) | (16) | (46) | (1,640) |
| Eliminated on disposals | 121 | 109 | 362 | - | 30 | 622 |
| Currency adjustment | - | 1 | (22) | 1 | 3 | (17) |
| At December 31, 2009 | (177) | (381) | (1,437) | (66) | (138) | (2,199) |
| | | | | | | |
| **Net Book Value** | | | | | | |
| **At December 31, 2008** | **260** | **426** | **976** | **72** | **42** | **1,776** |
| | | | | | | |
| **At December 31, 2009** | **382** | **907** | **2,300** | **65** | **64** | **3,718** |

Amortization expense is included in other expenses (Note 9).

## 15. MERCHANDISE

Merchandise as at December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Goods for resale | 388,548 | 300,113 |
| Raw materials | 26,604 | 23,223 |
| | | |
| **Total** | **415,152** | **323,336** |

## 16. ADVANCES PAID

Advances paid as at December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Advances to third party suppliers | 29,263 | 22,812 |
| Advances to employees | 1,782 | 3,613 |
| Advances to related party suppliers | - | 53 |
| | | |
| **Total** | **31,045** | **26,478** |

## 17. OTHER RECEIVABLES

Other receivables as at December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Value Added Tax | 3,848 | 4,285 |
| Other taxes receivable | 592 | 1,547 |
| Advances on customs duties | 17,309 | - |
| Other receivables from related parties | 4,970 | 1,562 |
| Settlements with employees | 422 | 280 |
| Claims to suppliers | 624 | 100 |
| Other | 7,906 | 8,914 |
| Less: provision for doubtful other receivables | (2,758) | (1,361) |
| **Total** | **32,913** | **15,327** |

The Group does not hold any collateral over these balances. The average age of these balances is 6 days.

In 2009, the Group made a prepayment to the customs authorities on custom duties related to import of goods.

Ageing of other receivables past due but not impaired:

| | 2009 | 2008 |
|---|---|---|
| less than 90 days | 4,668 | 6,397 |
| between 90-180 days | 252 | 1,400 |
| between 180-360 days | 130 | 503 |
| greater than 360 days | - | - |
| **Total** | **5,050** | **8,300** |

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.

The Group has recorded a provision for receivables within 'Other', which include fees outstanding on the Group's subleases and other miscellaneous services.

Movement in the provision for doubtful debts:

| | 2009 |
|---|---|
| Balance at beginning of the year | 1,361 |
| Increase in provision recognised in the profit or loss | 1,369 |
| Translation adjustment | 28 |
| **Balance at the end of the year** | **2,758** |

## 18. PREPAID EXPENSES

Prepaid expenses as at December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Expenses related to operating long-term lease contract | 1,197 | 1,031 |
| Property insurance | 2,287 | 721 |
| Rent | - | 262 |
| Other | 1,057 | 153 |
| **Total** | **4,541** | **2,167** |

## 19. SHORT-TERM INVESTMENTS

Short-term investments as at December 31, 2009 and 2008 consisted of the following:

| | Weighted average interest rate | 2009 | Weighted average interest rate | 2008 |
|---|---|---|---|---|
| Short-term loans to third parties | 14.51% | 6,221 | 17.46% | 6,168 |
| Short-term loans to related parties | 6.00% | 358 | 6.00% | 1,674 |
| **Total** | | **6,579** | | **7,842** |

The amount of USD 1,868 thousand included in short-term loans to third parties as at December 31, 2009 represents a loan provided to an individual entrepreneur Polezhaev I.A.

## 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Petty cash, in RUB | 11,784 | 9,990 |
| Cash in banks, in RUB | 51,592 | 60,412 |
| Cash in banks, in CNY (currency in China) | 7 | 4 |
| Cash in banks, in EUR | 3 | - |
| Cash in banks, in USD | 3 | - |
| Cash on deposit in RUR | 259,709 | - |
| Cash on deposit in USD | 5,200 | - |
| Cash on deposit held with a related party, in RUB | - | 9,190 |
| Cash in transit, in RUB | 42,747 | 35,459 |
| **Total** | **371,045** | **115,055** |

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

Deposits in RUR were placed with Sberbank, Krasnodar branch with an annual interest rate of 7% in the amount of RUR 6,850,000 thousand (USD 226,490 thousand) plus interest receivable in the amount of RUR 3,663 thousand (USD 121 thousand) and with CJSC Credit Europe Bank with an annual interest rate of 8.3% in the amount of RUR 1,000,000 thousand (33,064 thousand) plus interest receivable in the amount of RUR 1,023 thousand (USD 34 thousand).

## 21. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

| | 2009<br>No. ('000) | 2008<br>No. ('000) |
|---|---|---|
| Authorized share capital (ordinary shares with a par value of RUB 0.01) | 200,850 | 200,850 |
| Issued and fully paid (par value of RUB 0.01) | 88,843 | 83,114 |

| | 2009<br>No. ('000) | 2008<br>No. ('000) |
|---|---|---|
| Balance at beginning of financial year | 83,114 | 72,000 |
| Additional issue of shares | 5,729 | 11,246 |
| Treasury shares | - | (132) |
| **Balance at the end of financial year** | **88,843** | **83,114** |

In October 2009, the Group issued 5,729,413 of ordinary shares for a total cash consideration of RUB 10,816,253 thousand (USD 370,738 thousand) less expenses related to the issue of shares in the amount of USD 8,941 thousand. The difference between cash received and the nominal value of shares of USD 361,797 thousand was recorded as share premium during the year ended December 31, 2009.

During 2008, a subsidiary of the Group, repurchased 131,761 shares of OJSC "Magnit" in the amount of RUB 134,549 thousand (USD 5,557 thousand), which is recorded as treasury shares as at December 31, 2009.

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.

## 22. DIVIDENDS PROPOSED AND PAID

During the year ended December 31, 2009 the Group declared dividends to shareholders relating to 2008 and first quarter of 2009:

| | 2009 | 2008 |
|---|---|---|
| Dividends declared for 2008 (0.05 USD for 1 share) | 3,903 | - |
| Dividends declared for the first quarter 2009 (0.15 USD for 1 share) | 12,726 | - |
| Income tax withheld and paid to budget | 3,307 | - |

As of December 31, 2009 the amount of unpaid liability for income tax is USD 2,199 thousand.

## 23. LONG-TERM BONDS

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Weighted average interest rate | Amount | Weighted average interest rate | Amount |
| Bonds issued in 2007 | 8.26% | 127,403 | 8.20% | 125,705 |
| Less: current portion (Note 28) | 8.26% | (2,731) | 8.20% | (2,665) |
| **Total long-term bonds** | | **124,672** | | **123,040** |

In March 2007 the Group issued bonds of RUB 5,000,000 thousand net of direct issuing costs of RUB 23,025 thousand (USD 784 thousand), maturing in March 2012. The total amount outstanding as at December 31, 2009 is RUB 3,853,230 thousand (USD 127,403 thousand), 2008: RUB 3,614,957 thousand (USD 123,040 thousand), net of RUB 10,382 thousand of direct issue costs (USD 343 thousand) and RUB 9,000 thousand of discount (USD 298 thousand) plus accrued interest of RUB 82,612 thousand (USD 2,731 thousand), 2008: RUB 78,313 thousand (USD 2,665 thousand). The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

A number of the bonds issued in 2007 were acquired by a subsidiary of the Group and were resold in the open market during 2009.

## 24. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases as at December 31, 2009 and 2008 consisted of the following:

| | Minimum lease payments 2009 | Minimum lease payments 2008 | Present value of minimum lease payments 2009 | Present value of minimum lease payments 2008 |
|---|---|---|---|---|
| **Amounts payable under finance leases** | | | | |
| Within one year | 34,379 | 35,676 | 31,899 | 31,079 |
| Between one and two years | 22,747 | 30,980 | 18,583 | 20,602 |
| Over two years | 7,509 | 18,827 | 5,551 | 9,768 |
| | 64,635 | 85,483 | 56,033 | 61,449 |
| Less: future finance charges | (8,660) | (23,928) | | |
| Effect of foreign exchange rates | 58 | (106) | | |
| **Present value of lease payments** | **56,033** | **61,449** | **56,033** | **61,449** |
| Less: Amount due for settlement within 12 months | | | (28,433) | (21,825) |
| **Amount due for settlement after 12 months** | | | **27,600** | **39,624** |

The Group has entered into certain lease agreements LLC “Raiffeisen-Leasing”, LLC “BSGV Leasing”, CJSC “SG Finance”,  LLC “De Lage Landen Leasing” and LLC “Cargobul Finance” for the rent of vehicles with an average lease term of 3.36 years. The average effective borrowing rate for 2009 was 15.74% (2008: 27.33%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent lease payments.

Lease obligations under the lease contracts are denominated in RUB, USD and Euro. However, all lease payments are made in RUB.

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

## 25. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Trade payables to third parties | 572,324 | 484,857 |
| **Total** | **572,324** | **484,857** |

The average credit period for purchases was 47 days in 2009 and 40 days in 2008. 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.

## 26. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as at December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Accrued salaries and wages | 31,469 | 28,055 |
| Other accrued expenses | 21,598 | 9,380 |
| Unified Social Tax | 8,170 | 6,707 |
| Property tax | 6,020 | 4,877 |
| Employee Income Tax Withholding | 4,902 | 3,120 |
| Accrued bonus | 114 | - |
| Other payables to third parties | 7,512 | 38,226 |
| Other payables to related parties (Note 30) | 39 | 1,304 |
| Other taxes | 321 | 597 |
| **Total** | **80,145** | **92,266** |

In 2008, included in the amount of other payables to third parties, USD 34,036 thousand represents the outstanding payable for purchase of minority interest in LLC "Magnit Nizhniy Novgorod". This amount was fully paid in 2009.

## 27. BONUS

In December 2009, the Group established a compensation plan for the management of the Group, whereby eligible employees may receive a cash bonus after a service period of two years. The amount recorded during the period is as follows:

| | 2009 |
|---|---|
| Liability at the beginning of financial year | - |
| Compensation expense | 108 |
| Change in estimate | - |
| Currency adjustment | 6 |
| Liability at the end of the period | 114 |

## 28. SHORT-TERM LOANS

Short-term loans as at December 31, 2009 and 2008 consisted of the following:

| | Weighted average interest rate | 2009 | Weighted average interest rate | 2008 |
|---|---|---|---|---|
| Alfa Bank | 6.07% | 214,917 | - | - |
| BSGV | 13.27% | 16,372 | 19.69% | 13,419 |
| KB Systema | 14.00% | 4,133 | - | - |
| Other short-term loans | 12.60% | 3 | 6.54% | 395 |
| Sberbank, Krasnodar branch | - | - | 12.76% | 159,189 |
| Raiffeisen Bank | - | - | 26.36% | 17,506 |
| VTB | - | - | 15.00% | 17,018 |
| Sberbank, Severokavkazskiy branch | - | - | 14.08% | 6,804 |
| Sberbank, Volgo-Vjatskiy branch | - | - | 14.58% | 3,590 |
| Uralsib Bank | - | - | 13.05% | 794 |
| Current portion of bonds (Note 23) | 8.26% | 2,731 | 8.20% | 2,665 |
| **Total short-term loans** | | **238,156** | | **221,380** |

***2009***

***Alfa-Bank*** – During 2009, the Group entered into a number of credit line agreements for borrowings of up to RUB 6,500,000 thousand (USD 214,917 thousand) maturing in January 2010. The total amount outstanding as at December 31, 2009 is RUB 6,500,000 thousand (USD 214,917 thousand). The credit lines were unsecured as at December 31, 2009.

***BSGV*** – During 2009, the Group entered into a number of credit line agreements for borrowings of up to RUB 500,000 thousand (USD 16,532 thousand) maturing in January 2010. The total amount outstanding as at December 31, 2009 is RUB 494,000 thousand (USD 16,334 thousand) plus interest accrued of RUB 1,153 thousand (USD 38 thousand). The credit lines were unsecured as at December 31, 2009.

***KB Sistema*** – During 2009, the Group entered into a credit agreement for borrowing of RUB 125,000 thousand (USD 4,133 thousand) maturing in March 2010. The total amount outstanding as at December 31, 2009 is RUB 125,000 thousand (USD 4,133 thousand). The borrowing was unsecured as at December 31, 2009.

The credit facilities outstanding at December 31, 2008 with Sberbank, Krasnodar branch, Raiffeisen Bank and VTB, BSGV, Sberbank, Severokavkazskiy branch, Sberbank, Vogo-Vjatskiy branch and Uralsib bank matured during 2009 and as such were fully paid by the Group during the year.

## 29. PURCHASE OF MINORITY INTEREST IN LLC “MAGNIT NIZHNIY NOVGOROD”

In December 2008, the Group purchased the remaining minority interest (49%) in its subsidiary LLC “Magnit Nizhniy Novgorod” for USD 53,596 thousand, thus becoming a sole owner of it and its subsidiary LLC “Tandem”. The Group paid USD 19,560 thousand of this in 2008, with the remainder recorded as a liability of USD 34,036 thousand. The difference between the purchase price of the minority interest and the carrying amount of the minority interest’s share of net assets acquired of USD 52,114 thousand was recorded as reduction of equity of the Group. The consideration payable of USD 34,036 thousand was fully paid in 2009.

In addition, during 2009, the Group recognised and paid contingent consideration of USD 794 thousand, which was recorded as a reduction of equity.

## 30. TRANSACTIONS WITH RELATED PARTIES

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 equipment from the Group, obtain loans and hold bank deposits.

Loans to related parties maturing in August 2010 are interest bearing and unsecured. These loans are stated at cost as the discounting effect was not significant. 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 at December 31, 2009 and 2008 consisted of the following:

| | **2009** | **2008** |
|---|---|---|
| Deposits | - | 9,190 |
| Short-term loans receivable | 358 | - |
| Advances paid | - | 53 |
| Other receivables | 4,970 | 1,562 |
| Other payables | 39 | 1,304 |
| Loans given | - | 1,674 |

The Group's transactions with related parties for the years ended December 31, 2009 and 2008 consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Purchases of property, plant and equipment | 15,102 | 14,061 |
| Rent received | 125 | 903 |
| Wholesales | - | 562 |
| Other sales | 3,318 | 3,182 |
| Rent paid | 100 | 59 |
| Interest on deposit | - | 33 |
| Loans given | 19 | 2,123 |
| Deposits | - | 10,863 |

Short-term employee benefits of Group management and members of the Board of Directors of Group companies for 2009 were USD 2,494 thousand (2008: USD 3,631 thousand).

## 31. CAPITAL AND RENT COMMITMENTS

As at December 31, 2009 and 2008 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

| | 2009 | 2008 |
|---|---|---|
| Commitments for the acquisition of property, plant and equipment | 184,413 | 181,877 |

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

| | 2009 | 2008 |
|---|---|---|
| Within one year | 108,949 | 76,464 |
| In the second to fifth years inclusive | 145,328 | 94,496 |
| After five years | 30,483 | 29,911 |
| **Total** | **284,760** | **200,871** |

## 32. SUBSEQUENT EVENTS

There were no significant events after the reporting date.

## 33. 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, operating results and cash flows.

***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.

***Operating Environment –*** Although in recent years there has been a general improvement in economic conditions in Russian Federation, Russian Federation continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Russian Federation continue to change rapidly. Tax, currency and customs legislation within Russian Federation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russian Federation. The future economic direction of Russian Federation is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

## 34. FINANCIAL INSTRUMENTS

Management believes the fair value of financial instruments classified as current 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 are therefore considered a level 1 in the fair value hierarchy. Their fair value as at December 31, 2009 was USD 118,659 thousand (2008: USD 68,225 thousand).

### *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 23 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 21.

### *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 gearing ratio at December 31, 2009 and 2008 was as follows:

| | **2009** | **2008** |
|---|---|---|
| Debt | 362,828 | 344,420 |
| Cash and cash equivalents | (371,045) | (115,055) |
| Net debt | (8,217) | 229,365 |
| Equity | 1,424,836 | 836,788 |
| Net debt to equity ratio | -0.6% | 27.4% |

Debt is defined as long-term 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 4 “Significant Accounting Policies”.

| | 2009 | 2008 |
|---|---|---|
| ***Financial assets*** | | |
| Loans and receivables | 17,019 | 19,966 |
| ***Financial liabilities*** | | |
| Amortised cost | 1,076,418 | 988,839 |

### 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. The cash flow risk is managed by the Group by entering into borrowings with fixed interest rates.

### 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 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** |
|---|---|---|---|---|---|---|---|
| ***2009*** | | | | | | | |
| Non-interest bearing | - | 474,752 | 182,805 | - | - | - | 657,557 |
| Finance lease liability | 15.74 | 2,962 | 5,878 | 25,539 | 30,256 | - | 64,635 |
| Fixed interest rate instruments | 7.24 | 231,930 | 5,221 | 9,403 | 140,685 | - | 387,239 |
| | | **709,644** | **193,904** | **34,942** | **170,941** | **-** | **1,109,431** |
| ***2008*** | | | | | | | |
| Non-interest bearing | | 495,544 | 80,084 | 8 | - | - | 575,636 |
| Finance lease liability | 27.47 | 3,131 | 6,196 | 26,349 | 49,807 | - | 85,483 |
| Variable interest rate instruments | 25.87 | 497 | 749 | 15,536 | 3,520 | - | 20,302 |
| Fixed interest rate instruments | 11.25 | 20,306 | 69,169 | 136,383 | 151,703 | - | 377,561 |
| | | **519,478** | **156,198** | **178,276** | **205,030** | **-** | **1,058,982** |

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** |
|---|---|---|---|---|---|---|---|
| ***2009*** | | | | | | | |
| Deposits in banks | 7.03 | 265,664 | - | - | - | - | 265,664 |
| Non-interest bearing | - | 14,654 | 15,876 | 1,709 | - | - | 32,239 |
| Fixed interest rate instruments | 14.03 | 49 | 4,240 | 2,404 | - | - | 6,693 |
| | | **280,367** | **20,116** | **4,113** | **-** | **-** | **304,596** |
| ***2008*** | | | | | | | |
| Deposits in banks | 13.75 | 9,190 | - | - | - | - | 9.190 |
| Non-interest bearing | - | 10,703 | 3,607 | 629 | - | - | 14,939 |
| Fixed interest rate instruments | 18.65 | 1,811 | 4,550 | 2,712 | - | - | 9,073 |
| | | **21,704** | **8,157** | **3,341** | **-** | **-** | **33,202** |

The Group has access to financing facilities of RUB 13,017,000 thousand (USD 430,397 thousand) of which RUB 6,017,000 thousand (USD 198,947 thousand) remains unused at December 31, 2009. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.