OJSC Dixy Group

International Financial Reporting Standards
Consolidated Financial Statements and Auditor's Report

For the Year Ended 31 December 2007

OJSC Dixy Group

International Financial Reporting Standards

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For the Year Ended 31 December 2007

Contents

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Independent Auditors' Report

To the Board of Directors of OJSC Dixy Group

We have audited the accompanying financial statements of OJSC Dixy Group and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

20 May 2008 Ernst & Young LLC

OJSC Dixy Group

Consolidated Balance Sheet at 31 December 2007

(in thousands Russian roubles, unless otherwise indicated)

	Notes	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,503,172	5,975,406
Capital advances		1,512,406	1,237,274
Goodwill	6	404,603	404,603
Other intangible assets	7	642,761	701,071
Loans given	11	3,176	187,559
Initial lease costs	8	496,525	563,141
Deferred tax asset	21	62,019	32,319
		11,624,662	**9,101,373**
Current assets			
Inventories	9	2,404,832	1,641,130
Trade and other receivables	10	1,437,845	1,144,032
Initial lease costs	8	82,564	76,853
Loans given	11	111,317	188,186
Cash and cash equivalents	12	1,257,037	678,904
		5,293,595	**3,729,105**
TOTAL ASSETS		**16,918,257**	**12,830,478**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Share capital	13	600	500
Additional paid-in capital	13	3,473,447	29,047
Retained earnings		2,094,878	1,665,809
		5,568,925	**1,695,356**
Minority interest		**4,431**	**4,668**
TOTAL EQUITY		**5,573,356**	**1,700,024**
Non-current liabilities			
Bank loans	15	1,854,858	430,324
Bonds	14	3,000,000	3,000,000
Finance leases	16	161,419	92,055
Deferred tax liability	21	457,474	366,091
		5,473,751	**3,888,470**
Current liabilities			
Trade and other payables	17	4,625,394	3,373,135
Bank loans	15	434,329	2,944,091
Borrowings from ultimate shareholder and parties under common control	15	318,442	377,926
Current portion of Bonds	14	77,542	76,782
Finance leases	16	109,871	33,542
Provisions for liabilities and charges	24	184,455	336,759
Income taxes payable		121,117	99,749
		5,871,150	**7,241,984**
		11,344,901	**11,130,454**
TOTAL EQUITY AND LIABILITIES		**16,918,257**	**12,830,478**

Signed and authorized for release on behalf of the Board of Directors of OJSC Dixy Group on 20 May 2008

Fedor Rybasov,
Managing Director

Tatiana Pirogova,
Head of IFRS Reporting

The accompanying notes on pages 7 to 57 are an integral part of these consolidated financial statements

OJSC Dixy Group

Consolidated Income Statement

For the year ended 31 December 2007

(in thousands of Russian roubles, unless otherwise indicated)

	Notes	2007	2006
Continuing operations			
Revenue	18	36,651,629	27,116,963
Cost of sales		(27,735,270)	(21,399,049)
Gross profit		**8,916,359**	**5,717,914**
General and administrative expenses	19	(7,724,642)	(4,950,925)
Share of profit of and gain on disposal of associate		–	4,539
Operating profit		**1,191,717**	**771,528**
Finance income	20	100,292	135,720
Finance costs	20	(528,747)	(513,182)
Profit before income tax		**763,262**	**394,066**
Income tax expense	21	(334,430)	(108,452)
Profit for the year from continuing operations		**428,832**	**285,614**
Discontinued operations			
Loss after tax for the year from a discontinued operation	22	–	(42,347)
Profit for the year		**428,832**	**243,267**
Attributable to:			
Equity holders of the Parent		429,069	243,267
Minority interests		(237)	–
		428,832	**243,267**
Earnings per ordinary share for profit from continuing operations attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)	23	7.80	5.71
Loss per ordinary share for loss from discontinued operations attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)	23	–	(0.85)
Total earnings per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)		**7.80**	**4.86**

The accompanying notes on pages 7 to 57 are an integral part of these consolidated financial statements

OJSC Dixy Group

Consolidated Statement of Cash Flows

For the year ended 31 December 2007

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2007	2006
Cash flows from operating activities:			
Profit before income tax from continuing operations		763,262	394,066
Adjustments for:			
Depreciation of property, plant and equipment	5	686,502	399,555
Amortisation of intangible assets	7	58,423	42,452
Amortisation of initial lease costs		106,059	30,440
Gains less losses on disposals of property, plant and equipment and intangible assets		(1,100)	(7,368)
Increase in provision for impairment of trade and other receivables		41,765	342
Increase in provision for inventory obsolescence	9	22,459	3,104
Decrease in provision for liabilities and charges	24	(152,304)	(203,883)
(Decrease) / increase in provision for income tax liability	24	(31,348)	5,756
Finance costs	20	528,747	513,182
Interest income on loans given and cash deposits	20	(69,101)	(87,584)
Share-based compensation of Group's director		–	15,286
Share on profit of and gain on disposal of associate		–	(4,539)
Forgiveness of loan payable to ultimate shareholder	4	–	(27,749)
Unrealised foreign exchange gains less losses on borrowings		(31,191)	(48,136)
Operating cash flows before working capital changes		**1,922,173**	**1,024,924**
Increase in trade and other receivables	10	(149,617)	(458,491)
Increase in inventories	9	(786,161)	(555,399)
Increase in trade and other payables	17	1,284,055	1,393,469
Cash generated from operations		**2,270,450**	**1,404,503**
Income tax paid		(232,830)	(73,774)
Interest paid		(621,650)	(334,664)
Net cash from operating activities – continuing operations		**1,415,970**	**996,065**
Net cash used in operating activities – discontinued operations	22	–	(45,416)
Net cash from operating activities		**1,415,970**	**950,649**
Cash flows from investing activities:			
Purchase of property, plant and equipment	5	(3,043,901)	(3,876,770)
Proceeds from sale of property, plant and equipment		22,390	90,872
Proceeds from sale of associate		–	54,539
Proceeds from sale of subsidiaries		–	4,559
Initial Lease costs paid		(46,065)	(642,083)
Purchases of businesses from parties under common control, net of cash acquired		(8,630)	(187,439)
Loans repaid	11	193,947	346,478
Disbursement of loans	11	(111,027)	(408,155)
Interest received		47,235	3,222
Purchases of intangible assets	7	(58,460)	(8,753)
Net cash used in investing activities – continuing operations		**(3,004,511)**	**(4,623,530)**
Net cash from investing activities – discontinued operations	22	–	9,883
Net cash used in investing activities		**(3,004,511)**	**(4,613,647)**

The accompanying notes on pages 7 to 57 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows (continued)

	Note	2007	2006
Cash flows from financing activities:			
Proceeds from loans and borrowings	15	8,824,355	9,586,574
Repayment of loans and borrowings	15	(9,983,887)	(6,005,974)
Buy-out of minorities		–	(45,000)
Proceeds from new issuance of shares		3,444,500	–
Finance lease payments	16	(118,294)	(105,809)
Net cash from financing activities – continuing operations		**2,166,674**	**3,429,791**
Net cash from financing activities – discontinued operations	22	–	15,982
Net cash from financing activities		**2,166,674**	**3,445,773**
Net increase / (decrease) in cash and cash equivalents		578,133	(217,225)
Cash and cash equivalents at the beginning of the year	12	678,904	896,129
Cash and cash equivalents at the end of the year	12	**1,257,037**	**678,904**

The following non-cash investing and financing activities were excluded from the above consolidated statement of cash flows for the year ended 31 December 2007:

- acquisition of property, plant and equipment of 237,400 (in 2006: 105,246) through finance lease;
- contribution of Interfinance by an entity under common control in the amount of Nil (in 2006: 147,876) – refer to Note 25.

OJSC Dixy Group

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(in thousands of Russian roubles, unless otherwise indicated)

		Attributable to equity holders of the Parent					
	Note	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
At 1 January 2006		**500**	**48,894**	**1,446,829**	**1,496,223**	**25,585**	**1,521,808**
Profit for the year		–	–	243,267	243,267	–	243,267
Net assets of subsidiaries contributed by entities under common control	25	–	–	147,876	147,876	–	147,876
Cash paid for subsidiaries contributed by entities under common control	4	–	–	(187,449)	(187,449)	–	(187,449)
Sale of subsidiary		–	(19,847)	–	(19,847)	–	(19,847)
Share-based compensation	4	–	–	15,286	15,286	–	15,286
Buy-out of minority interests	2.3,6	–	–	–	–	(20,917)	(20,917)
At 31 December 2006		**500**	**29,047**	**1,665,809**	**1,695,356**	**4,668**	**1,700,024**
Profit for the year		–	–	429,069	429,069	(237)	428,832
Issuance of shares in connection with initial public offering	13	100	3,444,400	–	3,444,500	–	3,444,500
At 31 December 2007		**600**	**3,473,447**	**2,094,878**	**5,568,925**	**4,431**	**5,573,356**

The accompanying notes on pages 7 to 57 are an integral part of these consolidated financial statements

1 Corporate Information

CJSC "Company Uniland Holding" (the "Company") was incorporated in January 2003 in Moscow, Russian Federation for the purpose of consolidation and reorganization of entities under common control. The Company is 100% owned by Dixy Retail Limited (BVI) through Dixy Holding Limited (Cyprus). In March 2007, the Company was reorganized into an Open Joint Stock Company and renamed to "Dixy Group".

The consolidated financial statements of the Company and its subsidiaries (the "Group"), for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Board of Directors on 20th of May 2008.

The Group's operations are located in the Russian Federation. The head office of the Company is located at Ozernaya Str., 42, Moscow, Russian Federation.

The Group operates in the retail sales business. The Group's principal activities include trading of consumer goods through stores within the Russian Federation. At 31 December 2007 the Group operated 388 stores (2006: 326) within its three divisions located in Central District (Moscow and the surrounding regions), North-Western District (Saint Petersburg and the surrounding regions) and Urals District (Yekaterinburg and the surrounding regions) of Russia.

Since 24 May 2007 shares of OJSC Dixy Group are listed on the RTS Stock Exchange (refer to Note 13).

As of 31 December 2007 the Group was ultimately controlled by Mr. Oleg Leonov.

2.1 Basis of Preparation

The Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular Group company is resident. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The functional currency of Group companies was determined on an entity by entity basis. In 2007 and 2006 the functional currency of the all of the Group's operating companies was determined to be Russian Roubles ("RR").

The consolidated financial statements are presented in Russian Rouble and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Basis of Preparation (continued)

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year.

Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated: unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisition of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized in goodwill.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the income statement.

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in these financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

As at 31 December 2007 and 31 December 2006 the principal operating and holding consolidated subsidiaries of OJSC Dixy Group were:

Company	Country	Nature of operations	Ownership (%) 2007	2006
Timefield Trading & Investments Ltd	Cyprus	Financial company	100%	100%
Lexavart Holding Ltd	BVI	Holder of trademarks	100%	100%
CJSC Discount Centre	Russia	Retailing	100%	100%
CJSC DIXY Yug	Russia	Retailing	100%	100%
CJSC DIXY – Logistics	Russia	Transportation	100%	100%
CJSC Regionalnyje magaziny	Russia	Managing of Group's assets	100%	100%
CJSC Spayder Ekaterinburg	Russia	Managing of Group's assets	100%	100%
LLC Yaroslavskie magaziny	Russia	Retailing	100%	100%
LLC Novatsia	Russia	Retailing	–	100%
LLC Denver	Russia	Retailing	100%	100%
LLC Stroyregioninvest	Russia	Real estate	100%	100%
LLC Interfinance	Russia	Retailing	100%	100%
LLC Kalitniki	Russia	Real estate	100%	100%
LLC Agat-26	Russia	Retailing	100%	100%
LLC Sever-13	Russia	Real estate	100%	100%
LLC D-Vostok	Russia	Retailing	100%	100%
LLC Kostromatorg	Russia	Real estate	100%	100%
LLC Kaluzhskie magaziny	Russia	Retailing	100%	100%
CJSC DIXY – St Petersburg	Russia	Retailing	100%	100%
CJSC Megamart – Severo-Zapad	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
LLC Severo-Zapad	Russia	Holding company	100%	100%
LLC Sankt-Petersburgskie magaziny	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
CJSC Uniland Commercial Centres Ekaterinburg	Russia	Retailing	100%	100%
LLC SPb-Leasing	Russia	Real estate	100%	100%
LLC DIXY Chelyabinsk	Russia	Retailing	100%	100%
LLC Dixy-Chelyabinsk-Nedvizhimost	Russia	Real estate	100%	100%
LLC Dixy-Snezhinsk	Russia	Real estate	100%	100%
CJSC Dixy-Ural	Russia	Real estate	100%	100%
OJSC YarTorgOdezhda	Russia	Retailing, Real estate	94.4%	94.4%

In 2005 the immediate shareholder of the Company founded a wholly-owned subsidiary LLC Dixy Finance which satisfies the criteria of SIC 12 "Consolidation – Special Purpose Entities" to be classified as special purpose entity and therefore consolidated in these financial statements (refer to Note 2.3).

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

Timefield Trading & Investment Ltd and Lexavart Holding Ltd were acquired from the entity under common control in November 2006, but they are consolidated using pooling of interests method and presented in these consolidated financial statements as if the businesses had been combined from 1 January 2006.

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Amendment – Presentation of Financial Statements*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

The Group has also early adopted the following IFRS:

- IAS 23 *Borrowing Costs (revised)*

The principal effects of these changes in policies are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 26.

2.2 Changes in accounting policy and disclosures (continued)

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration, which appears to be less than fair value. As the Group does not use equity instruments for settlements, the interpretation had no impact on the financial position or performance of the Group. The Group's accounting policies is already in compliance with this clarification.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

IAS 23 Borrowing Costs

The Group elected to adopt early a revised IAS 23 *Borrowing costs* that was issued in March 2007. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group adopted this as a prospective change. Accordingly, borrowing costs of 130,903 were capitalized on qualifying assets with a commencement date after 1 January 2007 (refer to Note 5). No changes were made for borrowing costs incurred to this date that have been expensed. The Group believes it is impracticable to assess the effect on current and prior period financial position or performance of this change in accounting policy as if it has been retrospectively applied.

Reclassifications

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2006 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

The principal reclassification result from change in recognition of revenue from services rendered to vendors. In 2007 in order to comply with best accounting practices the Group adopted stricter rules for those proceeds from services rendered to vendors recognized as revenue and reclassified comparative information.

2.2 Changes in accounting policy and disclosures (continued)

Reclassifications (continued)

In 2006 the Group showed deferred tax liability net of deferred tax assets because of immateriality of deferred tax asset amount. Because of the growth of the amount of deferred tax asset in 2007 the Group presented separately deferred tax asset and liability and reclassified comparative information accordingly.

In 2007 the Group reclassified current portion of initial lease costs as it believes this will provide more useful information to the users of the financial statements.

The Group reclassified cash from sale of subsidiary (LLC Zavoljie) in the amount 17,830 received in 2006 to cash from sale of property, plant and equipment because sales of this subsidiary rather represents disposal of an asset than disposal of operation.

	As previously reported	Effect of retrospective reclassifications	As currently reported
Consolidated income statement			
Revenue	27,435,792	(318,829)	27,116,963
Cost of sales	(21,717,878)	318,829	(21,399,049)
Consolidated balance sheet			
Deferred tax asset	–	32,319	32,319
Deferred tax liability	(333,772)	(32,319)	(366,091)
Initial lease costs, non-current	639,994	(76,853)	563,141
Initial lease costs, current	–	76,853	76,853
Consolidated cash flow statement			
Proceeds from sale of property, plant and equipment	73,052	17,830	90,882
Proceeds from sale of subsidiaries	22,389	(17,830)	4,559

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements

Recognition of revenue for services rendered to vendors

Revenue from services provided to vendors generates significant portion of the Group income from operating activities. Because these service contracts are closely related to core purchase contracts it is often a matter of judgement to distinguish whether proceeds for services rendered should be recognised as revenue or should be classified as a deduction from cost of goods purchased as in fact represent discounts provided. In 2007 the Group adopted stricter rules for those proceeds from services provided to vendors recognised as revenue and reclassified comparative information (refer to Note 2.2).

2.3 Significant accounting judgments, estimates and assumptions (continued)

Buy-out of minority interests

In 2006 the Group bought out minority interests in some of its subsidiaries, posting a difference between the cash consideration paid and the book value of these minority interests. The Group's accounting policy is to treat transactions with minority interests as transactions with third parties, therefore a negative difference of 2006 amounting 24,083 was treated as goodwill (refer to Note 6).

Consolidation of a special purpose entity

In 2005 the immediate shareholder of the Company founded a wholly-owned subsidiary LLC Dixy Finance. The objective of LLC Dixy Finance is to obtain external financing and provide loans to operating companies of the Group and to pay remuneration to the Group's management. Having analysed the criteria set out in SIC-12 *Consolidation – Special Purpose Entities,* management concluded that in substance LLC Dixy Finance represents a special purpose entity controlled by the Group and is therefore consolidated in these financial statements.

Derecognition of liability to ultimate shareholder

In 2006 the ultimate shareholder forgave the loan that was due to him by the Group (refer to Note 4). This transaction was accounted for in the income statement as, in management's judgement, this transaction with the ultimate shareholder was not in his capacity as equity holder.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. The assets subject to such assessment are primarily property, plant and equipment, goodwill, initial lease costs and other intangible assets. Goodwill (more details are provided in Note 6) and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets.

2.3 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any non-financial assets impairment.

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. In 2007, there were no change in estimates of useful lives of property, plant and equipment.

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgement in forecasting future cash flows and developing other assumptions.

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers and contractors to make required payments or rendered services. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2007, allowances for doubtful accounts have been created in the amount of 42,193 (2006: 428).

Inventory provision

The Group determines the provisions for obsolete or slow moving items of inventories based on their expected future use and realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of sale or distribution. Selling prices and costs to sale are subject to change as new information becomes available. Revisions to the estimates may significantly affect future operating results.

2.3 Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions (continued)

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 24.

Deferred Tax Assets

Group's management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss. More details are provided in Note 21.

2.4 Summary of significant accounting policies

Property, plant and equipment

The Group's property, plant and equipment, except for assets acquired prior to 1 January 2003, are stated at historical cost less accumulated depreciation and any impairment in value. Property, plant and equipment acquired before 1 January 2003 is stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002, less accumulated depreciation and any impairment in value.

Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	30
Renovation of stores	5
Equipment	3 – 5

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Operating leases

Where the Group is a lessee in a lease, which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments (including initial lease costs) are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2.4 Summary of significant accounting policies (continued)

Finance lease liabilities

Where the Group is a lessee in a lease, which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term. Where a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Other intangible assets

All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, trademarks and favourable operating lease agreements.

Acquired computer software and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software are expensed when incurred.

2.4 Summary of significant accounting policies (continued)

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licenses	5 – 7
Favourable lease agreements – over the lease term	5 – 20

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

Capital advances

Capital advances include amounts prepaid for property, plant and equipment and are measured at cost. Payments for purchases of property, plant and equipment are presented net of VAT in the cash flow statement.

Initial lease costs

Initial lease costs paid to the lessor under operating leases are charged to the income statement on a straight-line basis over the lease period.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. A liability is also recorded for any taxes that are payable but not declared in the tax accounts of the Group entities. This liability is released to the income statement after three years. A provision for taxes, other than on income, is set up and recorded within operating expenses.

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

2.4 Summary of significant accounting policies (continued)

Income taxes (continued)

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash transferred from stores to bank but not yet credited to bank accounts as of the balance sheet date is recorded as cash in transit.

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

2.4 Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity.

Additional paid-in capital

Additional contributions of shareholders other than proceeds from issue of the Company's equity instruments are recorded as additional paid-in capital at the fair value of the contributions received.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

Value added tax payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

VAT recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, the VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases and putting property, plant and equipment into operation.

2.4 Summary of significant accounting policies (continued)

Borrowings

Borrowings are recognized initially at cost which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognized as interest expense over the period of the borrowings. The borrowing costs incurred on qualifying assets are capitalised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables

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

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is realized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Foreign currency translation

Functional currency of each of the Group's consolidated entities and the Group's presentation currency is the national currency of the Russian Federation, Russian roubles.

Monetary assets and liabilities are translated into Russian roubles at the official exchange rate of the Central Bank of the Russian Federation at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank of the Russian Federation are recognised in profit or loss.

At 31 December 2007 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 24.5462 (2006: US$ 1 = RR 26.3311).

2.4 Summary of significant accounting policies (continued)

Employee benefits

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

Pension obligations

The Group contributes to the Russian Federation state pension fund as well as social insurance, medical insurance, and unemployment funds on behalf of its employees. These contributions, being calculated on a sliding scale at a rate of between 2% and 26%, are expensed as incurred. The Group has no other program for payment of post retirement benefits to its employees and thus has no future liability for such payments.

It does not impose upon the Group any constructive unconditional liabilities since all risks and benefits related to payments to employees are undertaken by the state.

Share-based compensation

The fair value of the employee services received in exchange for the grant of warrants and options is recognised as an expense. The same applies when equity instruments in the Company or entities under common control are transferred to employees by the shareholders except when these transfers are clearly for a purpose other than payment for goods or services supplied to the Group. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the management revises its estimates of the number of options that are expected to meet the service and other non-market vesting conditions. The cumulative impact of the revision of original estimates, if any, is recognised immediately in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Bonuses

For each year the Group's management establishes bonus programs for middle and senior management. Bonuses are generally dependent on the achievement of certain financial performance criteria of individual business units and the Group as a whole and are calculated and accrued in the period in which the related services are rendered.

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognized when the title to goods and the risks of ownership are transferred to the customer, provided that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized net of value added tax, sales tax and discounts.

Marketing revenue is recognised in the period when the services are rendered and accepted by the customer by signing an acceptance act subject to a condition that there is a reasonable certainly that the respective accounts receivable will be repaid.

Rental income is recognised on a straight-line basis over the lease term.

Expense recognition

Expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the statement of income in the period to which they relate.

Advertising costs

Advertising costs are expensed when incurred.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately (Dixy Retail, Megamart Retail and Wholesale). Minimart business segment is reported separately since it distinguishes from other business segments by product assortment and customer class.

Standards issued but not yet effective

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the entity has not early adopted.

IFRS 8 *Operating Segments*

IFRS 8 was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2009. IFRS 8 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The Group has determined that the operating segments disclosed in IFRS 8 will be the same as the business segments disclosed under IAS 14. The impact of this standard on the other segment disclosures is still to be determined. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2009.

2.4 Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Other new standards or interpretations

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation addresses how to apply IFRS 2 Share- based Payments to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The Group's accounting policies is already in compliance with this clarification.
- IFRIC 12, Service Concession Arrangements was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exists.
- IFRIC 14/IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008). The Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Interpretation is not applicable to the Group's operations because the company does not have defined benefit schemes.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements. The Group does not currently plan adopt the above standards before the effective date.

3 Segment Information

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments

The Group is organised on a basis of three main business segments:

- Retail - Dixy – representing retail sales through a chain of discounters and are present in all three geographical areas of the presence of the Group;
- Retail - Megamart – representing retail sales through a chain of compact hypermarkets. In December 2006 the Group had to discontinue its Megamart stores in Saint-Petersburg (refer to Note 22);
- Retail - Minimart – representing retail sales through a chain of economy supermarkets, present mainly in Urals Division. They operate as a separate segment as they have a different customer class and differ by product assortment as compared traditional Dixy stores.

At the same time the Group used to operate in the wholesale segment, representing wholesale of food and non-food goods. As the only entity of the Group engaged in wholesale operations was sold on 30 June 2006, the wholesale division is presented as a discontinued operation (refer to Note 22).

Transactions between the business segments are on normal commercial terms and conditions. Internal charges between segments have been reflected in the performance of each business segment.

Unallocated costs represent corporate expenses. Segment assets consist of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as income tax liabilities and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets including amounts acquired through business combinations, capital advances and initial lease costs.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2007 and 2006 is set out below:

	Dixy	Megamart	Minimart	V-mart	Eliminations	Group
2007						
Sales of continuing operations - external	32,150,527	3,243,937	1,184,979	72,186	–	**36,651,629**
Total revenue	32,150,527	3,243,937	1,184,979	72,186	–	**36,651,629**
Segment result - continuing operations	1,276,260	139,284	75,936	(292)	–	**1,491,188**
Unallocated expenses						**(299,471)**
Operating profit						**1,191,717**
Finance income						**100,292**
Finance costs						**(528,747)**

3 Segment Information (continued)

Business Segments (continued)

	Dixy	Megamart	Minimart	V-mart	Eliminations	Group
Profit before income tax						**763,262**
Income tax expense						**(334,430)**
Profit for the year from continuing operations						**428,832**
Total segment assets	**13,669,684**	**2,272,075**	**482,345**	**30,553**	**–**	**16,454,657**
Deferred tax assets						**62,019**
Unallocated cash and cash equivalents						**58,565**
Other unallocated assets						**343,016**
Total assets						**16,918,257**
Total segment liabilities	**4,111,892**	**458,296**	**170,663**	**11,481**	**–**	**4,752,332**
Current and deferred tax liability						**578,591**
Bank Loans						**2,289,187**
Borrowings from ultimate shareholder and parties under common control						**318,442**
Bonds						**3,077,542**
Finance lease liabilities						**271,290**
Other unallocated liabilities						**57,517**
Total liabilities						**11,344,901**
Capital expenditure	2,935,914	796,031	–	4,220	–	**3,736,165**
Depreciation and amortisation – continuing operations	(662,792)	(67,169)	(14,059)	(905)	–	**(744,925)**
Other Non-cash expenses:						
Amortisation Initial Lease costs	(106,059)	–	–	–	–	**(106,059)**
Tax provision	152,304	–	–	–	–	**152,304**

3 Segment Information (continued)

Business Segments (continued)

	Dixy	Megamart	Wholesale	Minimart	Eliminations	Group
2006						
Sales of continuing operations - external	24,027,224	2,588,243	–	501,496	–	**27,116,963**
Sales of discontinued operations - external	–	412,855	1,988,264	–	–	**2,401,119**
Sales to other segments	–	–	169,863	–	(169,863)	**–**
Total revenue	24,027,224	3,001,098	2,158,127	501,496	(169,863)	**29,518,082**
Segment result - continuing operations	815,812	7,597	–	24,668	(14,811)	**833,266**
Share in results of and gain on disposal of associate						**4,539**
Unallocated expenses						**(66,277)**
Operating profit						**771,528**
Finance income						**135,720**
Finance costs						**(513,182)**
Profit before income tax						**394,066**
Income tax expense						**(108,452)**
Profit for the year from continuing operations						**285,614**
Segment result – discontinued operations	–	(102,626)	136,346	–	–	**33,720**
Gain / loss on disposal of the discontinued operation	–	97,906	(186,711)	–	–	**(88,805)**
Profit before income tax – discontinued operations						**(55,085)**
Income tax expense - discontinued operation						**12,738**
Profit from and gain on disposal of discontinued operations						**(42,347)**
Total segment assets	11,941,816	422,287	–	90,801	–	**12,454,904**
Deferred tax assets						**32,319**
Unallocated cash and cash equivalents						**17,121**
Other unallocated assets						**326,134**
Total assets						**12,830,478**
Total segment liabilities	3,354,823	207,647	–	70,831	–	**3,633,301**
Current and deferred tax liability						**465,840**
Bank Loans						**3,374,415**
Borrowings from ultimate shareholder and parties under common control						**377,926**
Bonds						**3,076,782**
Finance lease liabilities						**125,597**
Other unallocated liabilities						**76,593**
Total liabilities						**11,130,454**

3 Segment Information (continued)

Business Segments (continued)

	Dixy	Megamart	Wholesale	Minimart	Eliminations	Group
Capital expenditure	4,650,111	145,755	1,859	91,454	–	**4,889,179**
Depreciation and amortisation – continuing operations	(416,007)	(26,000)	–	–	–	**(442,007)**
Depreciation charge – discontinued operations	–	(2,949)	(4,169)	–	–	**(7,118)**
Other Non-cash expenses:						
Amortisation Initial Lease costs	(30,440)					**(30,440)**
Tax provision	173,947	29,936				**203,883**

The Group revised comparative information related to year 2006 due to reclassifications described in Note 2. Additionally the Group revised the presentation of capital expenditures reported in segment information. In prior year the Group included in capital expenditures only additions of property, plant and equipment and intangible assets. This year the Group included into capital expenditures also capital advances and initial lease costs because they represent investments with useful life exceeding one year.

Geographical segments

The Group’s three business segments operate in three main geographical areas: Dixy-Retail segment operates in Central region (comprising Moscow and Moscow region, Yarosalvl region, Ryazan region and Kaluga), North-West region (comprising Saint-Petersburg and neighbouring towns) and Ural, while Megamart and Minimart segments operate only in Ural (before December 2006 – Megamart also in North-West region). Before June 2006 the Group operated its wholesale business in Ural.

Segment information for the main geographical segments of the Group is set out below.

	Central region	North-West region	Ural	Total
2007				
Total segment assets	9,383,297	3,805,896	3,265,464	**16,454,657**
External revenue – continuing operations	19,958,812	9,621,318	7,071,499	**36,651,629**
External revenue – discontinued operations	–	–	–	**–**
Capital expenditure	1,992,239	859,092	884,834	**3,736,165**

	Central region	North-West region	Ural	Total
2006				
Total segment assets	7,336,691	2,815,471	2,302,742	**12,454,904**
External revenue – continuing operations	15,102,770	6,970,812	5,043,381	**27,116,963**
External revenue – discontinued operations	–	412,855	1,988,264	**2,401,119**
Capital expenditure	2,851,070	1,135,329	902,780	**4,889,179**

3 Segment Information (continued)

Geographical segments (continued)

External revenue is based on where the customer is located. Segment assets and capital expenditure are based on where the assets are located. Capital expenditure includes assets acquired through business combinations.

4 Balances and Transactions with Related Parties

In accordance with IAS 24 “Related Party Disclosures”, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company’s immediate parent and ultimate controlling party is disclosed in Note 1.

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The management considers that the Group has appropriate procedures in place to identify and properly disclose transactions with the related parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 are detailed below. At 31 December 2007, the outstanding balances with related parties were as follows:

	Entities under common control	Total
Gross amount of trade receivables	9,147	9,147
Gross amount of other receivables	4,610	4,610
Gross amount of loans given	72,837	72,837
Capital advances	153,077	153,077
Borrowings (refer to Note 15)	318,442	318,442
Trade and other payables	6,381	6,381

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

	Entities under common control	Total
Interest income	10,641	10,641
Interest expense	27,000	27,000
Operating lease expenses	17,282	17,282

4 Balances and Transactions with Related Parties (continued)

Transfers under finance arrangements (including loans and equity contributions in cash or in kind) for the year 2007 were as follows:

In thousands of Russian Roubles	Ultimate shareholder	Entities under common control	Management	Total
Loans issued	–	4,283	–	4,283
Repayment of loans issued	–	(48,504)	(5,960)	(54,464)
Proceeds from borrowings	–	–	–	–
Repayments of borrowings	(19,500)	(38,889)	–	(58,389)

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2006 are detailed below. At 31 December 2006, the outstanding balances with related parties were as follows:

	Ultimate shareholder	Entities under common control	Management	Total
Gross amount of trade receivables	–	6,853	–	6,853
Gross amount of other receivables	–	26,234	–	26,234
Gross amount of loans given - current	–	116,636	5,960	122,596
Capital advances	–	44,018	–	44,018
Borrowings (refer to Note 15)	19,500	358,426	–	377,926
Trade and other payables	–	7,940	–	7,940

The income and expense items with related parties for the year 2006 were as follows:

	Entities under common control	Total
Interest income	11,922	11,922
Interest expense	77,119	77,119

Transfers under finance arrangements (including loans and equity contributions in cash or in kind) for the year 2006 were as follows:

In thousands of Russian Roubles	Ultimate shareholder	Entities under common control	Management	Total
Loans issued	–	104,360	5,960	110,320
Repayment of loans issued	–	–	–	–
Proceeds from borrowings	19,500	8,157	–	27,657
Repayments of borrowings	–	(1,156,411)	–	(1,156,411)

4 Balances and Transactions with Related Parties (continued)

Loan from ultimate controlling shareholder

In 2006 the Group received 19,500 from its ultimate controlling shareholder. The loan was interest-free, not secured and repayable on demand (refer to Note 15). In 2007 the Group repaid the amount.

In 2004 the Group received 27,749 (US$ 1 million) from its ultimate controlling shareholder. The loan was interest-free, not secured and repayable on demand (refer to Note 15). The loan was forgiven by the ultimate controlling shareholder in 2006, and the resulting gain was recognized in other expenses within General and Administrative Expenses (refer to Note 19).

Share-based payment by the ultimate shareholder to a Group's director

During 2005 a director of the Group was granted free warrants in Dixy Retail Limited by the ultimate shareholder equal to one percent of its capital over a 2-year vesting period from 1 July 2005. Under the arrangement, the director was to play an executive role in the Group over the vesting period. In September 2006 the Group's ultimate shareholder and the director mutually agreed that the arrangement was not advantageous as services had not been required and therefore had not been provided to the Group.

The ultimate shareholder transferred agreed amount of shares in Dixy Retail Limited to the director with the director waiving any claim against Dixy Retail Limited. The equity settlement at the time of granting was estimated as 15,286 (US$ 582 thousand) based on calculating fair market value through applying market practice of valuating an enterprise (multiples of the peers, discounted for liquidity).

Directors' compensation

Compensation paid to eight (2006: four) directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results, all of which represent short-term employee benefits as defined in IAS 19, *Employee Benefits*. Total directors' compensation included in operating expenses in the income statement amounted to 63,640 (2006: 36,531).

Loans obtained from parties under common control

At 31 December 2007 and 2006 the Group had several outstanding loans from Dixy Capital Investments Limited, which is under control of the Group ultimate shareholder. These loans are payables on demand and denominated at US dollars. Interest rate on these loans is 11-11.5% (2006: 13%). No assets are pledged under these loans agreement.

Loans issued to parties under common control

At 31 December 2007 and 2006 the Group had several loans issued to parties under common control of the Group ultimate shareholder. These loans are payables in year 2008 and are denominated in US dollars. Interest rate on these loans is in range of 11-11.5% (2006: 9.5-12.65%). These loans are no secured.

4 Balances and Transactions with Related Parties (continued)

Purchase of businesses from entities under common control

Interfinance

In August 2006 an entity under common control has acquired Interfinance for a cash consideration of 147,876. In August 2006 the Group purchased Interfinance from the entity under common control for a cash consideration 8,630.

Stroyregioninvest

In 2005 an entity under common control acquired Stroyregioninvest whereby the Group paid 94,000 in 2005 and 158,801 in 2006 on behalf of the entity under common control for this acquisition. In 2006 the Group purchased Stroyregioninvest from the entity under common control for a cash consideration of 10.

LLC Planeta Management

In 2005 and 2006 the Group purchased the assets (buildings and favourable lease contracts for buildings of stores) that represented the business of LLC Planeta Management from an entity under common control for a total cash consideration of 137,712 of which 109,074 was paid in 2005 and 28,638 was paid in 2006.

Expenses covered by the entities under common control

The Group's management for a certain period of time in 2006 was employed by an entity under common control (Dixy Capital Representative Office). The payroll amounted to 125,394 in 2006. Audit fees in amount of 3,107 in 2006 were paid by an entity under common control (Dixy Retail).

5 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment in 2007 were as follows:

	Buildings	Renovation of stores	Equipment	CIP	Total
Cost					
At 31 December 2006	**2,862,197**	**739,287**	**1,605,920**	**1,592,148**	**6,799,552**
Additions	–	–	–	3,224,689	3,224,689
Transfers	1,320,818	458,730	829,107	(2,608,655)	–
Disposals – continuing operations	(46,182)	–	(19,081)	–	(65,263)
At 31 December 2007	**4,136,833**	**1,198,017**	**2,415,946**	**2,208,182**	**9,958,978**
Accumulated Depreciation					
At 31 December 2006	**131,514**	**230,355**	**462,277**	**–**	**824,146**
Depreciation charge – continuing operations	120,114	172,021	394,367	–	686,502
Disposals – continuing operations	(36,580)	–	(18,262)	–	(54,842)
At 31 December 2007	**215,048**	**402,376**	**838,382**	**–**	**1,455,806**
Net book value					
At 31 December 2007	**3,921,785**	**795,641**	**1,577,564**	**2,208,182**	**8,503,172**
At 31 December 2006	**2,730,683**	**508,932**	**1,143,643**	**1,592,148**	**5,975,406**

5 Property, Plant and Equipment (continued)

Movements in the carrying amount of property, plant and equipment in 2006 were as follows:

	Buildings	Renovation of stores	Equipment	CIP	Total
Cost					
At 31 December 2005	**1,511,247**	**413,939**	**971,974**	**528,402**	**3,425,562**
Acquisitions through business combinations	–	–	–	1,615	1,615
Additions	–	–	–	3,606,545	3,606,545
Transfers	1,447,932	353,721	742,761	(2,544,414)	–
Disposals – continuing operations	(96,982)	(28,373)	(56,693)	–	(182,048)
Disposals – discontinued operations	–	–	(52,122)	–	(52,122)
At 31 December 2006	**2,862,197**	**739,287**	**1,605,920**	**1,592,148**	**6,799,552**
Accumulated Depreciation					
At 31 December 2005	**49,561**	**166,749**	**297,312**	**–**	**513,622**
Depreciation charge – continuing operations	84,033	91,943	223,579	–	399,555
Disposals – continuing operations	(2,080)	(28,337)	(27,538)	–	(57,955)
Depreciation charge – discontinued operations	–	–	7,118	–	7,118
Disposals – discontinued operations	–	–	(38,194)	–	(38,194)
At 31 December 2006	**131,514**	**230,355**	**462,277**	**–**	**824,146**
Net book value					
At 31 December 2006	**2,730,683**	**508,932**	**1,143,643**	**1,592,148**	**5,975,406**
At 31 December 2005	**1,461,686**	**247,190**	**674,662**	**528,402**	**2,911,940**

The carrying value of equipment and buildings held under finance lease contracts at 31 December 2007 was 274,299 (2006: 44,642) and 147,043 (2006: 188,354), respectively. Additions during 2007 include 237,400 (2006: 105,246) of equipment held under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

At 31 December 2007 buildings and equipment carried at 539,696 (2006: 608,500) have been pledged to third parties as collateral for borrowings (refer to Note 15).

During the year ended 31 December 2007 the Group capitalized interest of 130,903 (2006: nil). Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation in the range of between 9.43-11.4% (refer to Note 2.2).

6 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2007	2006
Carrying amount at 1 January		**404,603**	**378,627**
Buy-out of minority interests	2.3	–	24,083
Acquisition of subsidiaries	25	–	1,893
Carrying amount at 31 December		**404,603**	**404,603**

6 Goodwill (continued)

In May 2006 the Group bought out a 20% interest in YarTorgOdezhda from its minority shareholders for a cash consideration of 45,000. The book value of the minority interest bought out was 20,917. Goodwill arising from this acquisition amounted to 24,083.

Goodwill Impairment Test

Goodwill is allocated to groups of cash-generating units (CGUs; one CGU is one store) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	2007	2006
Retail stores located in Yaroslavl and Yaroslavl region (former LLC Planeta Management and its subsidiaries and YarTorgOdezhda)	165,523	165,523
Retail stores located in Ryazan and Ryazan region	217,252	217,252
Retail stores located in Kolomna	19,935	19,935
Retail stores located in Smolensk	1,893	1,893
	404,603	**404,603**

As of 31 December 2007 and 2006 the recoverable amount of CGUs was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the group of CGUs operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2007	2006
Sales growth within five years	9%	9%-12%
Gross margin	20-23%	22-26%
Growth rate beyond five years	9%	4% p.a.
Pre-tax discount rate	12% p.a.	12% p.a.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports prepared by reputable analysts. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

Based on the impairment tests performed no impairment of goodwill arose. If the key assumptions listed above were changed to reflect reasonably possible more pessimistic expectations (sales growth within five years – 8%, gross margin – 18.5%, discount rate – 13%) the Group would still recognise no impairment.

6 Goodwill (continued)

As of 31 December 2006 the recoverable amounts of Ryazan, Kolomna and Smolensk groups of CGUs were determined based on the fair values less cost to sell at 31 December 2006 estimated by reference to recent market transactions. Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts of the groups of CGUs were based would not cause their carrying amount to exceed the recoverable amount.

7 Other Intangible Assets

Movements in the carrying amount of intangible assets in 2007 were as follows:

	Software licenses	Favourable operating lease agreements	Total
Cost			
At 31 December 2006	18,052	756,731	774,783
Additions	58,461	–	58,461
Disposals	(1,462)	(71,739)	(73,201)
At 31 December 2007	**75,051**	**684,992**	**760,043**
Amortisation			
At 31 December 2006	6,802	66,910	73,712
Amortisation charge	2,860	55,563	58,423
Disposals	(1,304)	(13,549)	(14,853)
At 31 December 2007	**8,358**	**108,924**	**117,282**
Carrying amount			
At 31 December 2007	**66,693**	**576,068**	**642,761**
At 31 December 2006	**11,250**	**689,821**	**701,071**

Movements in the carrying amount of intangible assets in 2006 were as follows:

	Software licenses	Favourable operating lease agreements	Total
Cost			
At 31 December 2005	13,009	558,705	571,714
Acquisition through business combination	–	198,026	198,026
Additions	8,703	–	8,703
Disposals – continuing operations	(3,660)	–	(3,660)
At 31 December 2006	**18,052**	**756,731**	**774,783**
Amortisation			
At 31 December 2005	4,379	26,881	31,260
Depreciation charge – continuing operations	2,423	40,029	42,452
Disposals – continuing operations	–	–	–
At 31 December 2006	**6,802**	**66,910**	**73,712**
Net book value			
At 31 December 2006	**11,250**	**689,821**	**701,071**
At 31 December 2005	**8,630**	**531,824**	**540,454**

8 Initial Lease Costs

Initial lease costs include lump sum amounts paid to the lessors under operating leases of stores and warehouses either for the right to conclude the lease or to finance construction and repairs works on the leased assets. Lump sums paid to the lessor are charged to the income statement on a straight-line basis over a period of lease.

9 Inventories

	2007	2006
Goods for resale	2,431,221	1,645,859
Raw materials and operating supplies	8,169	7,370
Less: net realizable value and goods shortage provision	(34,558)	(12,099)
Total inventories at the lower of cost or net realisable value	**2,404,832**	**1,641,130**

Inventory write-down due to shrinkages identified during the physical inventory counting in 2007 comprised 343,652 (2006: 132,160). No inventory is pledged as of 31 December 2007 and 2006.

10 Trade and Other Receivables

	2007	2006
Trade receivables (net of allowance for impairment of trade receivables of 9,110 (2006: 86)	455,231	166,394
VAT recoverable	439,488	441,337
Prepayments (net of allowance for impairment of prepayments of 32,320 (2006: 342)	277,344	413,330
Receivables for loan from CJSC Company Uniland Yekaterinburg sold to LLC Favorit	137,989	–
Prepaid expenses	29,243	16,322
Taxes prepaid	22,756	43,296
Income tax prepaid	9,262	–
Other receivables (net of allowance for impairment of other receivables of 763 (2006: Nil)	66,532	63,353
Total trade and other receivables	**1,437,845**	**1,144,032**

In 2007 the Group sold its loan from CJSC Company Uniland Yekaterinburg to LLC Favorit for carrying amount of 212,410. Out of this amount 74,421 was repaid till 31 December 2007 in accordance with payment schedule. As of 31 December 2007 outstanding amount of receivable from LLC Favorit is neither overdue not impaired and will be repaid till the end of 2008.

Trade receivables as of 31 December 2007 and 2006 are denominated mainly in Russian roubles.

10 Trade and Other Receivables (continued)

As at 31 December 2007, trade receivables at nominal value of 9,110 (2006: 86) were individually impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

At 1 January 2006	86
Change for the year	–
At 31 December 2006	86
Change for the year	9,024
At 31 December 2007	**9,110**

At 31 December, the ageing analysis of trade receivables is as follows:

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods: Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2007	455,231	277,107	87,792	32,493	55,853	1,986
2006	166,394	136,633	11,507	6,681	5,140	6,433

Trade receivable as of 31 December 2007 and 2006 has different payment terms ranging from 5 to 60 days payment period with average payment period of 1 month. Because of different payment terms and significant number of debtors the Group concluded that it is impracticable to provide ageing analysis of trade receivables on individual basis. The Group prepared overdue ageing analysis based on average payment period of 1 month.

As at 31 December 2007, other receivables at nominal value of 763 (2006: nil) were impaired and fully provided for. Movements in the provision for impairment of other receivables were as follows:

At 1 January 2006	–
Change for the year	–
At 31 December 2006	–
Change for the year	763
At 31 December 2007	**763**

At 31 December, the ageing analysis of other receivables is as follows:

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods: Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2007	66,532	26,067	9,578	16,773	5,385	8,729
2006	63,353	6,934	1,735	5,064	20,575	29,045

11 Loans Given

	2007	2006
Loan given to CJSC Company Uniland Yekaterinburg	–	187,559
Loan given to related parties	72,837	116,636
Other	41,656	71,550
Total loan issued	**114,493**	**375,745**
Current portion of non-current loan issued	(111,317)	(188,186)
Non-current loans issued	**3,176**	**187,559**

Terms and conditions in respect of loans issued are detailed below:

Borrower	Maturity	Currency	Contractual interest rate	Collateral	2007
Related parties	2008	US$	11-11.5%	none	72,837
Other	2008	RR	2%-11%	none	38,480
Other	2009	RR	11%	none	3,176
					114,493

Borrower	Maturity	Currency	Contractual interest rate	Collateral	2006
CJSC Company Uniland Yekaterinburg	2011	RR	9.5%	none	187,559
Related parties	2007	US$	11-11.5%	none	116,636
Other	2007	RR	1%-11%	none	71,550
					375,745

At 31 December, the ageing analysis of loans given receivables is as follows:

			Of which: not impaired on the reporting date and past due in the following periods			
	Carrying amount	Of which neither impaired nor past due on the reporting date	Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2007	114,493	81,249	816	21,376	261	10,791
2006	375,745	337,467	–	–	1,870	36,408

12 Cash and Cash Equivalents

	2007	2006
Cash on hand – Russian roubles	97,978	59,331
Russian rouble denominated bank balances due on demand (interest rate: 0.5% p.a.; 2006: 0.5% p.a.)	433,277	224,383
US$ denominated bank balances due on demand (interest rate: 0.5% p.a.; 2006: 0.5% p.a.)	135	214
Russian rouble denominated time deposits (interest rate: 3.25-3.50% p.a.)	233,415	–
Cash in transit – Russian roubles	492,232	394,976
	1,257,037	**678,904**

Time deposits have original maturities of less than three months.

13 Share Capital and Equity

Issued and additional paid-in capital

On incorporation the Company issued 500 shares at a par value of 1 per share.

Additional paid in capital represents accumulated contributions made by shareholders and share premium for new shares issue transactions.

In March 2007 the Company split its 500 shares into 50,000,000 shares of a par value of 0.01 Russian rouble per share. The shares rank equally. Each share carries one vote.

In May 2007 24,999,999 ordinary shares were issued to public investors as a result of the Initial Public Offering conducted at Russian stock exchange (RTS). Following completion of the offering, the Group issued to the Dixy Holding Limited by closed subscription 10,000,000 new shares. After completion of the offering, the closed subscription and the transfer between shareholders Dixy Holding owned 50.96 per cent of issued share capital.

Dividends

No dividends were paid in 2007 (2006: nil). No dividends were declared or paid subsequent to 31 December 2007 up to the date of authorisation of these financial statements for issue.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. The Company had 20,998 of accumulated profit as at 31 December 2007 (2006: nil). In addition, the Company's share in the undistributed and unreserved earnings of subsidiaries was approximately 773,971 as at 31 December 2007 (2006: 82,167).

14 Bonds

In March 2006 the Group issued 3,000,000 Russian rouble denominated bonds for a term of 5 years with a coupon period of 6 months. Bonds bear interest of 9.25% per annum. The only covenant of the bond placement is that the Company should retain control over its key operating companies, which account for more than 79% of consolidated revenues. As at 31 December 2007 the Group had accrued coupon of 77,542 (2006: 76,782).

15 Borrowings

	2007	2006
Term bank loans	2,289,187	3,374,415
Loan from ultimate shareholder (Note 4)	–	19,500
Loan from entities under common control (Note 4)	318,442	358,426
Total borrowings	**2,607,629**	**3,752,341**

The Group's borrowings mature as follows:

	2007	2006
Borrowings due:		
- within 1 year	752,771	3,322,017
- between 2 and 5 years	1,854,858	430,324
Total borrowings	**2,607,629**	**3,752,341**

Terms and conditions in respect of borrowings are detailed below:

Source of financing	Maturity date	Currency	Interest rate 2007	Interest rate 2006	Collateral 2007	Collateral 2006	2007	2006
LLC HSBCBank	2010	RR	MOSPRIME +1.85%	–	–	–	1,480,329	–
AK SberBank (OJSC)	2010	RR	10.0%	10.0%	Buildings for 152,890	Buildings for 209,869	60,950	193,005
AB Gazprombank (CJSC)	2010	RR	11.4%	11.4%	Buildings for 386,806	Buildings for 398,631	515,461	241,300
AK SberBank (OJSC)	2008	RR	8-10%	–	–	–	200,007	–
AKB Chelindbank (OJSC)	2008	RR	9%	–	–	–	28,973	–
OJSC Investing Bank TRUST	2007	RR	–	10%	–	–	–	1,955,637
OJSC Alfa-Bank	2007	RR	–	9.5%	–	–	–	669,000
AK SberBank (OJSC)	2007	RR	–	10-11%	–	–	–	306,545
Loan from ultimates shareholder (Note 4)	2007	RR	–	Interest free	–	–	–	19,500
Loan from entities under common control (Note 4)	2008	US$	11-11.5%	13-14%	–	–	318,442	358,426
Other	2008	RR			–	–	3,467	8,928
							2,607,629	**3,752,341**

15 Borrowings (continued)

Property, plant and equipment at carrying amount was pledged as collateral for borrowings of 539,696 (2006: 608,500) (refer to Note 5).

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

The carrying amounts of the borrowings approximate their fair values.

All borrowings were repaid in accordance with its maturities.

16 Finance Lease Liabilities

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

	Due in 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2007	**167,733**	**188,918**	**356,651**
Less future finance charges	(57,862)	(27,499)	(85,361)
Present value of minimum lease payments at 31 December 2007	**109,871**	**161,419**	**271,290**
Minimum lease payments at 31 December 2006	**64,425**	**123,929**	**188,354**
Less future finance charges	(30,883)	(31,874)	(62,757)
Present value of minimum lease payments at 31 December 2006	**33,542**	**92,055**	**125,597**

The Group entered into finance leases for various items of buildings and equipment (Note 5). All leases have purchase option at the end of lease terms. In the years ended 31 December 2007 and 2006 the average imputed return rate under lease contracts amounted to 26% and 29% respectively. Finance lease payables are stated in Russian roubles except for finance leases in the amount of 3,138 (2006: 2,615) denominated in US dollars and finance leases in the amount of 149,543 (2006: 69,510) denominated in Euro.

17 Trade and Other Payables

	2007	2006
Trade payables	4,160,376	2,890,333
Payables to employees	148,917	111,307
Other liabilities and accruals	123,520	104,475
VAT payable	83,520	128,047
Advances from customers	78,889	109,705
Payroll taxes payable	30,172	29,268
Trade and other payables	**4,625,394**	**3,373,135**

As of 31 December 2007 and 2006 trade payables are denominated mainly in Russian roubles.

17 Trade and Other Payables (continued)

Trade payables are normally settled on 60 days term. Payables to employees, VAT payable and payroll taxes payable are settled normally within 30-90 days after reporting date.

18 Revenue

	2007	2006
Sales of goods	36,272,812	26,911,910
Sublease income	195,125	136,143
Marketing revenue	183,692	68,910
Total revenue from continuing operations	**36,651,629**	**27,116,963**

19 General and Administrative Expenses

	Note	2007	2006
Staff costs		3,687,454	2,598,631
Operating lease expenses		1,431,241	1,074,983
Depreciation of property, plant and equipment and amortisation and impairment of intangible assets	5,7	744,925	442,007
Shrinkage of inventories		343,652	132,160
Utilities		275,876	157,139
Repair and maintenance costs		258,860	137,238
Supplies and materials		254,671	169,494
Transportation and handling costs		185,128	164,307
Advertising costs		111,848	81,751
Information, consulting and other services		98,583	60,803
Taxes other than income tax		86,651	50,855
Security services		81,422	14,537
Bank charges		76,014	63,734
Telecommunication expenses		57,991	35,778
Increase in provision for impairment of prepayments	10	31,978	342
Increase in inventory allowance	9	22,459	3,103
Business related expenses		15,118	14,972
Increase in provision for impairment of trade and other receivables	10	9,787	–
Other operating expenses		(49,016)	(250,909)
Total general and administrative expenses:		**7,724,642**	**4,950,925**

Included in staff costs are statutory social security and pension contributions (unified social tax) of 666,624 (2006: 421,665).

Operating lease expenses relate to cancellable and non-cancellable operating leases with terms from 1 to 20 years.

Included in other operating expenses is a change in provisions for liabilities and charges in the amount of positive 152,304 (2006: 203,883) (refer to Note 24).

20 Finance Income and Finance Costs

	Note	2007	2006
Interest income	4, 11	69,101	87,584
Foreign exchange gains less losses from borrowings		31,191	48,136
Total finance income		**100,292**	**135,720**

	Note	2007	2006
Interest expense	4 ,15	528,747	513,182
Total finance costs		**528,747**	**513,182**

Net gain/loss by category

The following table shows the net gains or losses of financial instruments included in the income statement in 2007:

		From subsequent measurement			
	From interest	Currency translation	Impairment/ reversal of impairment	From derecognition	Net gain/(loss)
Loans and receivables	69,101	(5,110)	–	–	63,991
Financial liabilities measured at amortised cost	(528,747)	36,301	–	–	(492,446)

The following table shows the net gains or losses of financial instruments included in the income statement in 2006:

		From subsequent measurement			
	From interest	Currency translation	Impairment/ reversal of impairment	From derecognition	Net gain/(loss)
Loans and receivables	87,584	(4,444)	–	–	83,140
Financial liabilities measured at amortised cost	(513,182)	52,580	–	–	(460,602)

21 Income Taxes

Income tax expense comprises the following:

	2007	2006
Current tax	272,747	94,025
Deferred tax	61,683	14,427
Income tax expense for the year	**334,430**	**108,452**

21 Income Taxes (continued)

A reconciliation between the expected and the actual taxation charge is provided below.

	2007	2006
Profit before income tax	**763,262**	**394,066**
Theoretical tax charge at statutory rate 24% (2006: 24%)	183,183	94,576
Tax effect of items which are not deductible or assessable for taxation purposes:		
Change of adjustment for deferred tax asset assessment	4,899	21,032
Shrinkage of inventories	82,476	31,718
Increase in deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries	–	(36,417)
Non-deductible expenses / (Non-taxable income)	63,872	(2,457)
Income tax expense for the year	**334,430**	**108,452**

Deferred tax balances are computed by applying the statutory tax rate in effect at the balance sheet date to the differences between the tax basis of assets and liabilities and the amounts reported in the accompanying consolidated financial statements, and are comprised of the following as of 31 December:

	2007	2006
Deferred tax assets	**11,383**	**9,267**
Accounts payable	6,978	(7,921)
Tax losses carried forward	33,790	41,674
Less: adjustment to deferred tax asset assessment	(29,385)	(24,486)
Deferred tax liabilities	**(406,838)**	**(343,039)**
Property, plant and equipment	(400,339)	(336,521)
Inventories	(6,499)	(6,518)
Net deferred tax liability	**(395,455)**	**(333,772)**

Reflected in the consolidated balance sheet as follows:

	2007	2006
Total Deferred tax assets	62,019	32,319
Total Deferred tax liabilities	(457,474)	(366,091)
Net deferred tax liability	**(395,455)**	**(333,772)**

21 Income Taxes (continued)

Weighted average income tax rate is set at 24% (2006: 24%); it is based on the income tax rates at the Group Companies' jurisdictions. In 2007 and 2006 there were no significant income or loss generated in the companies outside of Russian Federation.

Deferred tax assets and liabilities are calculated for all temporary differences under the liability method using the principal tax rate of 24%. Deferred tax assets and liabilities at 31 December 2007 and 2006 were attributable to the following:

	31 December 2006	Credited / (charged) to profit or loss	31 December 2007
Tax effect of deductible / (taxable) temporary differences and tax losses carried forward			
Accounts payable	(7,921)	14,899	6,978
Tax losses carried forward	41,674	(7,884)	33,790
Property, plant and equipment, and Other intangible assets	(336,521)	(63,818)	(400,339)
Inventories	(6,518)	19	(6,499)
Less: adjustment to deferred tax asset assessment	(24,486)	(4,899)	(29,385)
Net deferred tax liability	**(333,772)**	**(61,683)**	**(395,455)**

	31 December 2005	Business combinations	Disposal of subsidiaries	Credited / (charged) to profit or loss	31 December 2006
Tax effect of deductible / (taxable) temporary differences and tax losses carried forward					
Accounts payable	799	–	–	(8,720)	(7,921)
Tax losses carried forward	19,264	–	–	22,410	41,674
Property, plant and equipment, and Other intangible assets	(318,392)	(49,786)	75,904	(44,247)	(336,521)
Inventories	(7,263)	–	–	745	(6,518)
Investments in subsidiaries	(36,417)	–	–	36,417	–
Less: adjustment to deferred tax asset assessment	(3,454)			(21,032)	(24,486)
Net deferred tax liability	**(345,463)**	**(49,786)**	**75,904**	**(14,427)**	**(333,772)**

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of 122,438 (2006: 102,025). The tax loss carry forwards expire in 2015.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of 2,864,397 (2006: 2,964,742) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

22 Discontinued Operations

CJSC Company Uniland Yekaterinburg is presented as a discontinued operation following the approval of the Group's management and shareholders in May 2006 to sell it. The completion date for the transaction was 30 June 2006.

An analysis of the result of this discontinued operation is as follows:

	2006
Revenue	2,158,127
Expenses	(2,021,781)
Loss on disposal of the discontinued operation	(186,711)
Finance costs – discontinued operations	
(Loss) before tax of discontinued operations	**(50,365)**
Income tax	(1,597)
(Loss) after tax of discontinued operations	**(51,962)**

An analysis of the cash flows of discontinued operations is as follows:

	2006
Operating cash flows	(4,032)
Investing cash flows	9,883
Financing cash flows	(7,694)
Total cash flows	**(1,843)**

Loss on disposal of the discontinued operation is analysed as follows:

	2006
Property, plant and equipment	10,224
Other non-current assets	22,084
Current assets (excluding cash)	923,189
Cash and cash equivalents	4,933
Deferred tax liability	(84,343)
Current liabilities	(679,377)
Total net assets disposed	196,710
(Loss) on disposal of subsidiary	(186,711)
Consideration	**9,999**
Cash received	9,999
Consideration receivable as of 31 December 2006	–
	9,999
Net cash inflow on disposal of subsidiaries	
Cash and cash equivalents:	
- received	9,999
- disposed in subsidiaries	(4,933)
	5,066

22 Discontinued Operations (continued)

CJSC Megamart - St Petersburg, which is part of the Dixy Retail segment, is presented as a discontinued operation following the approval of the Group's management and shareholders in October 2006 to sell it. The completion date for the transaction was 21 December 2006.

An analysis of the result of this discontinued operation is as follows:

	2006
Revenue	412,855
Expenses	(515,481)
Gain on disposal of the discontinued operation	97,906

An analysis of the cash flows of discontinued operations is as follows:

(Loss) before tax of discontinued operations	**(4,720)**
Income tax	14,335
Profit after tax of discontinued operations	**9,615**

	2006
Operating cash flows	(41,384)
Investing cash flows	–
Financing cash flows	23,676
Total cash flows	**(17,708)**

Profit on disposal of the discontinued operation is analysed as follows:

	2006
Property, plant and equipment	3,704
Deferred tax asset	8,439
Current assets (excluding cash)	8,296
Cash and cash equivalents	516
Current liabilities	(96,848)
Non-current liabilities	(22,022)
Total net assets disposed	(97,915)
Profit on disposal of subsidiary	97,906
Consideration	**9**
Cash received	9
Consideration receivable as of 31 December 2006	–
	9
Net cash inflow on disposal of subsidiaries	
Cash and cash equivalents:	
- received	9
- disposed in subsidiaries	(516)
	(507)

23 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

Basic earnings per share are adjusted for the share split that occurred in March 2007. The number of ordinary shares is adjusted as if the event had occurred as of 1 January 2005 (refer to Note 13).

Earnings per share from continuing operations are calculated as follows:

	Note	2007	2006
Profit for the year from continuing operations attributable to ordinary shareholders		429,069	285,614
Weighted average number of ordinary shares in issue	13	55,000,000	50,000,000
Basic and diluted earnings per ordinary share from continuing operations (expressed in Russian rouble per share)		**7.80**	**5.71**

Earnings per share from discontinued operations are calculated as follows:

	Note	2007	2006
(Loss) for the year from discontinued operations attributable to ordinary shareholders		–	(42,347)
Weighted average number of ordinary shares in issue	13	55,000,000	50,000,000
Basic and diluted (loss) per ordinary share from discontinued operations (expressed in Russian rouble per share)		**–**	**(0.85)**

24 Contingencies, Commitments and Operating Risks

Operating environment of the group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russian Federation continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Legal proceedings

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

24 Contingencies, Commitments and Operating Risks (continued)

Capital expenditure commitments

At 31 December 2007 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totalling 1,086,822 (2006: 149,926).

In the above amount included commitments of 385,000 for the purchase of LLC Claim. The Group concluded contract for the purchase of this company in December 2007 but neither control over this entity nor associated risks were transferred before year end. Because the sole purpose for the purchase of entity is to obtain ownership of real estate objects the Group is currently renting the Group concluded that this acquisition does not represent a business combination.

Lease commitment

The Group entered into finance lease contract with LLC "VFS Vostoc" for the purchase of trucks for total amount of future minimum lease payments of 554,443 denominated in Euro. In accordance with the agreement these trucks will be received in the middle of year 2008. The Group expects that 46,120 of minimum lease payments are payable in 2008, while the remaining part will mature between two and five years from the reporting date.

Operating lease commitments

The Group leases premises for operation of its stores. Some of these leases are non-cancellable. These leases have remaining terms of between 2 and 20 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2007	2006
Committed to pay		
- within 1 year	780,397	421,289
- between 2 and 5 years	2,060,672	1,250,613
- more than 5 years	657,841	456,766
Total non-cancellable operating lease liabilities	**3,498,910**	**2,128,668**

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately as liabilities. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

24 Contingencies, Commitments and Operating Risks (continued)

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and 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 its 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. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, there is scope for companies to structure transactions so as to take advantage of possibilities in the Russian tax legislation to reduce the overall effective tax rate (Note 21).

In preparing these consolidated financial statements management has reflected the actual revenues and expenditures, rather than their formal characterization for statutory purposes in order to better reflect their economic substance. In this regard the benefits of certain revenue related tax savings have been included in other operating expenses net of provided taxes.

In the year ended 31 December 2006 the Group entered into arrangements with third parties and engaged in other arrangements, which resulted in tax benefits to the Group. Use of such arrangements and practices substantially ceased by the end of first half of 2006, and by the date of these financial statements arrangements and practices of this nature no longer take place. The Group did not have any direct or indirect shareholdings in these third parties, as well as no direct influence. In general management believes that the formal documentation of the Group’s transactions is sufficient to support its tax returns. However, as of 31 December 2006 management has recorded additional income tax liabilities of 75,475. During 2006, 4,104 of these liabilities has been released and 9,860 was accrued. In addition, as of 31 December 2006 management has recorded a provision for taxes other than on income in the amount of 336,759. During 2006, 398,572 of this provision was released and an additional 194,689 was accrued. Management believes that these provisions will be sufficient to cover any additional tax payments it may need to make in the future. The balances at 31 December 2006 are expected to be either utilised or released within three years. In considering what portion of provisions have been released in 2006 management took into account the statute of limitation period (generally, three years) as well as the fact that most of the Group’s entities were subject to tax inspections for the periods up to 31 December 2005 and did not receive material tax assessments.

During 2007 the Group released tax provision related to taxes other than income of 167,080 and income tax liability of 60,871, which are no longer probable due to limitation period or tax inspections. The Group accrued additional tax provision for unsustainable tax position related to taxes other than income of 14,776 and income tax liability of 29,523.

24 Contingencies, Commitments and Operating Risks (continued)

Tax legislation (continued)

Although there have historically been no significant liabilities arising from tax assessments, the potential for assessments over amounts provided or accrued remains. Management estimates that the order of magnitude as at 31 December 2007 of potential liabilities that have not been provided for because management believes they are less than probable, amounts to 166,293 (2006: 207,549).

25 Purchases of Businesses from Parties under Common Control

Interfinance

In August 2006 an entity under common control acquired 100% of LLC Interfinance for a cash consideration of 147,876. In October 2006 the Group purchased LLC Interfinance for a consideration of 8,630, which remained due to entity under common control as at 31 December 2006. Before the acquisition, the core business of LLC Interfinance was subleasing of its leaseholds to third party tenants. The acquired subsidiary contributed revenue of 1,703 and the Group's profit decreased by 3,175 for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, the Group's revenue would have increased by 3,408 and the profit for 2006 would have decreased by 6,344.

This business combination was accounted for using the pooling of interest method. LLC Interfinance has been consolidated starting 1 August 2006 when it was initially acquired by the entity under common control, using pooling of interest method (refer to Note 2.1). The assets and liabilities of the subsidiary transferred under common control are valued at the predecessor entity's carrying amounts. Goodwill resulting from original acquisition of LLC Interfinance by predecessor shareholder is also recorded in these financial statements. The goodwill was mainly attributable to the advantageous locations of the aquiree's leaseholds.

Details of the assets, liabilities and contingent liabilities acquired are as follows:

	Note	**Predecessor Shareholder Carrying Amount**
Property, plant and equipment	5	1,615
Favorable lease agreements (included in Other Intangible Assets)	7	198,026
Goodwill	6	1,893
Borrowings		(3,681)
Trade and other payables		(191)
Deferred income tax liability	21	(49,786)
Acquired interest in net assets of subsidiary at 1 August 2006		**147,876**
Less: outflow of cash and cash equivalents on acquisition 2006		–
Adjustment to equity at 31 December 2006		**147,876**

26 Financial Risk Management

Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables and cash and cash equivalents. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Market risk

The Group takes on exposure to market risks. Market risks arise from prices of goods sold by the Group and open positions in interest rate and currency financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Foreign exchange risk

Foreign currency denominated assets (refer to Note 11) and liabilities (refer to Notes 15, 16) give rise to foreign exchange exposure. The Board of Directors sets limits on the level of exposure by currency and in total. Compliance with limits is monitored monthly.

The following table demonstrates the sensitivity to a reasonably possible change in the US$ and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/decrease in exchange rate	**Effect on profit before tax**
2007		
US$	+7%	(17,403)
EUR	+4%	(5,982)
US$	-7%	17,403
EUR	-4%	5,982
2006		
US$	+7%	(13,998)
EUR	+4%	(2,780)
US$	-7%	13,998
EUR	-4%	2,780

26 Financial Risk Management (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related to the Group's long-term bank loan with floating interest rate (refer to Note 15).

The following table demonstrates the sensitivity to a reasonably possible change in MOSPRIME interest rates index, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/decrease in basis points	**Effect on profit before tax**
2007	+2	(29,193)
	-2	29,193
2006	+2	–
	-2	–

Liquidity risk

As at 31 December 2007 the Group's current liabilities exceeded the Group's current assets by 577,555 (2006: 3,512,879). Typically the reason for negative working capital is the suppliers' credit being greater than the inventory turnover, generally 1.5 - 2 times. Short credit lines cover any temporary deficit and are refinanced when required.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities as at 31 December 2007 is 669,296 (2006: 747,997) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted payments.

Year ended 31 December 2007	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Bank loans	–	72,989	560,465	2,129,989	2,763,443
Borrowings from ultimate shareholder and parties under common control	318,442	–	–	–	318,442
Bonds	–	138,360	138,360	3,691,800	3,968,520
Finance lease liability	–	41,933	125,800	188,918	356,651
Trade and other payables	67,006	4,479,499	–	–	4,546,505
Provision for liabilities and charges	184,455	–	–	–	184,455
Income taxes payables	–	121,117	–	–	121,117
	569,903	**4,853,898**	**824,625**	**6,010,707**	**12,259,133**

26 Financial Risk Management (continued)

Liquidity risk (continued)

Year ended 31 December 2006	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Bank loans	–	737,045	2,375,098	497,345	3,609,488
Borrowings from ultimate shareholder and parties under common control	358,426	–	19,500	–	377,926
Bonds	–	138,360	138,360	3,968,520	4,245,240
Finance lease liability	–	16,106	48,319	123,929	188,354
Trade and other payables	45,957	3,217,473	–	–	3,263,430
Provision for liabilities and charges	336,759	–	–	–	336,759
Income taxes payables	–	99,749	–	–	99,749
	741,142	**4,208,733**	**2,581,277**	**4,589,794**	**12,120,946**

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group's policy is to keep the Net Debt/EBITDA ratio between 2 and 3.5. The Group includes within net debt, interest bearing loans and borrowings, finance lease liabilities, less cash and cash equivalents, excluding discontinued operations. EBITDA is calculated as operating profit excluding depreciation of property, plant and equipment, amortization of intangible assets and dividends received.

	2007	2006
Bank Loans	2,289,187	3,374,415
Borrowings from ultimate shareholder and parties under common control	318,442	377,926
Bonds	3,077,542	3,076,782
Finance lease liabilities	271,290	125,597
Less cash and cash equivalents	(1,257,037)	(678,904)
Net Debt	**4,699,424**	**6,275,816**
Operating profit	1,191,717	771,528
Depreciation of property, plant and equipment	686,502	399,555
Amortisation of intangible assets	58,423	42,452
Dividends received	–	(4,539)
EBITDA	**1,936,642**	**1,208,996**
Net Debt/EBITDA	2.4	5.2

26 Financial Risk Management (continued)

Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements.

	2007		2006	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Loans given	114,493	114,493	375,745	375,745
Trade receivables	455,231	455,231	166,394	166,394
Other receivables	204,521	204,521	63,353	63,353
Cash and cash equivalent	1,257,037	1,257,037	678,904	678,904
Liabilities				
Bank loans	(2,289,187)	(2,289,187)	(3,374,415)	(3,374,415)
Borrowings from ultimate shareholder and parties under common control	(318,442)	(318,442)	(377,926)	(377,926)
Bonds	(3,077,542)	(2,822,542)	(3,076,782)	(2,866,782)
Finance lease liability	(271,290)	(271,290)	(125,597)	(125,597)
Trade and other payables	(4,546,505)	(4,546,505)	(3,263,430)	(3,263,430)
Provision for liabilities and charges	(184,455)	(184,455)	(336,759)	(336,759)
Income taxes payables	(121,117)	(121,117)	(99,749)	(99,749)

The fair value of borrowings except for publicly traded bonds has been calculated by discounting the expected future cash flows at prevailing interest rates. Bonds fair market value was determined based on stock exchange quotation. The fair value of other financial assets has been calculated using market interest rates.

27 Events After the Balance Sheet Date

Change of the shareholder of Dixy Retail Limited

In January 2008 Closed Joint-Stock Company "Trade company Megapolis" has acquired 100% of the ownership in Dixy Retail Limited (BVI), the owner of 100% stake in Dixy Holding Limited (Cyprus), which holds 50.96% of shares in OJSC Dixy Group. CJSC "Trade Company Megapolis" is a part of the Mercury Group. Mercury Group is ultimately controlled by Mr. Igor Kesaev.