Dixy Group

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

For the Years Ended 31 December 2006 and 2005

Contents

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Dixy Group

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO Dixy Group and its subsidiaries (the 'Group') which comprise the consolidated balance sheets as of 31 December 2006 and 2005 and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years 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 consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor's 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and 2005, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

17 April 2007

Dixy Group
Consolidated Balance Sheets
As at 31 December 2006 and 2005
(in thousands Russian roubles, unless otherwise indicated)

ASSETS	Note	31 December 2006	31 December 2005
Non-current assets:			
Property, plant and equipment	8	5,975,406	2,911,940
Goodwill	9	404,603	378,627
Other intangible assets	10	701,071	540,454
Investments in associates	11	-	50,000
Loans given	15	187,559	2,630
Capital advances	2	1,237,274	803,450
Initial lease costs	12	639,994	69,903
Total non-current assets		**9,145,907**	**4,757,004**
Current assets:			
Inventories	13	1,641,130	1,630,199
Trade and other receivables	7, 14	1,144,032	1,269,349
Loans given	15	188,186	42,147
Cash and cash equivalents	16	678,904	896,129
Total current assets		**3,652,252**	**3,837,824**
TOTAL ASSETS		**12,798,159**	**8,594,828**
EQUITY			
Share capital	17	500	500
Additional paid-in capital		29,047	48,894
Other reserves		15,286	-
Retained earnings		1,650,523	1,446,829
Equity attributable to the Company's equity holders		**1,695,356**	**1,496,223**
Minority interest	3, 30	**4,668**	**25,585**
TOTAL EQUITY		**1,700,024**	**1,521,808**
LIABILITIES			
Non-current liabilities:			
Bank loans	19	430,324	194,204
Borrowings from ultimate shareholder and parties under common control	7, 19	-	1,510,854
Bonds	18	3,000,000	-
Finance lease liabilities	20	92,055	80,917
Deferred tax liability	26	333,772	345,463
Total non-current liabilities		**3,856,151**	**2,131,438**
Current liabilities:			
Bank loans	19	2,944,091	1,559,879
Borrowings from ultimate shareholder and parties under common control	19	377,926	42,570
Bonds (interest)	18	76,782	-
Finance lease liabilities	20	33,542	15,946
Trade and other payables	21	3,373,135	2,549,719
Provisions for liabilities and charges	29	336,759	682,835
Income taxes payable	29	99,749	90,633
Total current liabilities		**7,241,984**	**4,941,582**
TOTAL LIABILITIES		**11,098,135**	**7,073,020**
TOTAL LIABILITIES AND EQUITY		**12,798,159**	**8,594,828**

Approved for issue and signed on behalf of the Board of Directors on 17 April 2007

Oleg Leonov,
Managing Director

Andrey Nesterenko,
Finance Director

The accompanying notes on pages 6 to 39 are an integral part of these consolidated financial statements

Dixy Group
Consolidated Income Statements
For the years ended 31 December 2006 and 2005
(in thousands of Russian roubles, unless otherwise indicated)

	Note	2006	2005
Continuing operations:			
Revenue	22	27,435,792	20,065,418
Cost of goods sold		(21,717,878)	(16,201,017)
Gross profit		**5,717,914**	**3,864,401**
General and administrative expenses	23	(4,950,925)	(3,341,782)
Excess of carrying value of minority interest over cost of acquisition		-	16,057
Share in results of and gain on disposal of associate	11	4,539	-
Operating profit		**771,528**	**538,676**
Finance income	24	135,720	12,909
Finance costs	25	(513,182)	(227,108)
Profit before income tax		**394,066**	**324,477**
Income tax expense	26	(108,452)	(118,608)
Profit for the year from continuing operations		**285,614**	**205,869**
Discontinued operations:			
(Loss) / Profit from and (loss) / gain on disposal of discontinued operations	27	(42,347)	78,910
Profit for the year		**243,267**	**284,779**
Profit is attributable to:			
Equity holders of the Company		243,267	284,779
Profit for the year		**243,267**	**284,779**
Earnings per ordinary share for profit from continuing operations attributable to the equity holders of the Company, basic and diluted (in RR per share)	28	5.71	4.12
Loss/(earnings) per ordinary share for loss/(profit) from discontinued operations attributable to the equity holders of the Company, basic and diluted (in RR per share)	28	(0.85)	1.58
Total earnings per ordinary share attributable to the equity holders of the Company, basic and diluted		4.86	5.70

Dixy Group
Consolidated Statements of Cash Flows
For the years ended 31 December 2006 and 2005
(in thousands of Russian roubles, unless otherwise indicated)

	Note	2006	2005
Cash flows from operating activities			
Profit before income tax from continuing operations		394,066	324,477
Adjustments for:			
Depreciation of property, plant and equipment	8	399,555	210,522
Amortisation of intangible assets	10	42,452	31,221
Operating lease from initial lease costs		30,440	13,822
Gains less losses on disposals of property, plant and equipment and intangible assets		(7,368)	(22,390)
Increase in provision for inventory obsolescence	13	3,104	16,334
(Decrease) / Increase in provision for liabilities and charges	29	(203,881)	307,828
Excess of carrying value of minority interest over cost of acquisition	3	-	(16,057)
Interest expense on borrowings	25	513,182	204,556
Interest income on loans given and cash deposits	24	(87,584)	(12,909)
Share-based compensation of Group's director	7	15,286	-
Share in results of and gain on disposal of associate		(4,539)	-
Forgiveness of loan payable to ultimate shareholder	7, 23	(27,749)	-
Unrealised foreign exchange losses less gains on borrowings	24, 25	(48,136)	22,552
Operating cash flows before working capital changes		**1,018,828**	**1,079,956**
Increase in trade and other receivables	14	(458,151)	(642,763)
Increase in inventories	13	(555,399)	(157,336)
Increase in trade and other payables	21	1,393,469	1,021,567
Cash generated from operations		**1,398,747**	**1,301,424**
Income tax paid		(68,018)	(37,301)
Interest paid		(334,664)	(191,650)
Net cash from operating activities – continuing operations		**996,065**	**1,072,473**
Net cash (used in) / from operating activities – discontinued operations	27	(45,416)	12,039
Net cash from operating activities		**950,649**	**1,084,512**
Cash flows from investing activities			
Purchase of property, plant and equipment	2, 8	(3,876,770)	(1,893,960)
Proceeds from sale of property, plant and equipment		73,052	41,579
Proceeds from sale of associate	11	54,539	-
Proceeds from sale of subsidiaries	27	22,389	-
Initial Lease costs paid		(642,083)	(24,800)
Acquisitions of subsidiaries, net of cash acquired	30	-	(105,087)
Purchases of businesses from parties under common control, net of cash acquired	7, 31	(187,449)	(203,074)
Loans returned	15	346,478	4,799
Loans provided	15	(408,155)	(33,032)
Interest received		3,222	5,329
Acquisitions of associates	11	-	(50,000)
Purchases of intangible assets	10	(8,753)	(5,849)
Net cash used in investing activities – continuing operations		**(4,623,530)**	**(2,264,095)**
Net cash provided from investing activities – discontinued operations	27	9,883	-
Net cash used in investing activities		**(4,613,647)**	**(2,264,095)**
Cash flows from financing activities			
Proceeds from borrowings	19	9,586,574	2,363,106
Repayment of borrowings	19	(6,005,974)	(621,209)
Buy-out of minorities	3	(45,000)	(3,565)
Proceeds from sale and leaseback transactions	20	-	133,024
Finance lease payments	20	(105,809)	(69,020)
Net cash provided from financing activities – continuing operations		**3,429,791**	**1,802,336**
Net cash from / (used in) financing activities – discontinued operations	27	15,982	(7,005)
Net cash provided from financing activities		**3,445,773**	**1,795,331**
Net (decrease) / increase in cash and cash equivalents		**(217,225)**	**615,748**
Cash and cash equivalents at the beginning of the year	16	**896,129**	**280,381**
Cash and cash equivalents at the end of the year	16	**678,904**	**896,129**

The following non-cash investing and financing activities were excluded from the above statement of cash flows in 2006 and 2005:

- acquisition of property, plant and equipment of 105,246 (in 2005: 32,059) through finance lease
- contribution of Interfinance by an entity under common control in the amount of 147,876 in 2006 (contribution of Stroyregioninvest by an entity under common control in the amount of 357,968 in 2005) - refer to Note 31

(in thousands of Russian roubles, unless otherwise indicated)

		Attributable to equity holders of the Company					Minority interest	Total Equity
	Note	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Other Reserves**	**Total**		
Opening balance at 1 January 2005		**500**	**48,894**	**913,153**	**-**	**962,547**	**19,622**	**982,169**
Profit for the year		-	-	284,779	-	284,779		284,779
Total recognised income for 2005		-	-	284,779	-	284,779	-	284,779
Business combinations	30	-	-	-	-	-	25,585	25,585
Net assets of subsidiaries contributed by entities under common control	31	-	-	451,968	-	451,968	-	451,968
Cash paid for subsidiaries contributed by entities under common control	2, 31	-	-	(203,071)	-	(203,071)	-	(203,071)
Buy-out of minority interests	3	-	-	-	-	-	(19,622)	(19,622)
Balance at 31 December 2005		**500**	**48,894**	**1,446,829**	**-**	**1,496,223**	**25,585**	**1,521,808**
Profit for the year		-	-	243,267	-	243,267	-	243,267
Total recognised income for 2006		-	-	243,267	-	243,267	-	243,267
Net assets of subsidiaries contributed by entities under common control	31	-	-	147,876	-	147,876		147,876
Cash paid for subsidiaries contributed by entities under common control	3, 31	-	-	(187,449)	-	(187,449)	-	(187,449)
Sale of subsidiary	27	-	(19,847)	-	-	(19,847)		(19,847)
Share-based compensation	7	-	-	-	15,286	15,286		15,286
Buy-out of minority interest	3, 30	-	-	-	-	-	(20,917)	(20,917)
Balance at 31 December 2006		**500**	**29,047**	**1,650,523**	**15,286**	**1,695,356**	**4,668**	**1,700,024**

(in thousands of Russian roubles, unless otherwise indicated)

1 The Dixy Group and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the years ended 31 December 2006 and 2005 for ZAO "Company Uniland Holding" (the "Company") and its subsidiaries (together referred to as the "Group" or "Dixy Group").

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" (refer to Note 33).

The Group is ultimately controlled by Mr Oleg Leonov (2005: Mr Oleg Leonov).

Principal activity. 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 2006 the Group operated 326 stores (2005: 218) 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.

As at 31 December 2006 and 31 December 2005 the principal operating and holding consolidated subsidiaries of ZAO Company Uniland Holding were:

			Ownership (%)	
Company	**Country**	**Nature of operations**	**2006**	**2005**
Timefield Trading & Investments Ltd	Cyprus	Financial company	100%	-
Lexavart Holding Ltd	BVI	Holder of trademarks	100%	-
ZAO Discount Centre	Russia	Retailing	100%	100%
ZAO DIXY Yug	Russia	Retailing	100%	100%
ZAO DIXY – Logistics	Russia	Transportation	100%	100%
OOO D-Vostok	Russia	Retailing	100%	100%
OOO Yaroslavskie magaziny	Russia	Retailing	100%	100%
OOO Novatsia	Russia	Retailing	100%	100%
OOO Denver	Russia	Retailing	100%	100%
ZAO DIXY – St Petersburg	Russia	Retailing	100%	100%
ZAO Megamart – St Petersburg	Russia	Retailing	-	100%
OOO Severo-Zapad	Russia	Holding company	100%	100%
ZAO Company Uniland Ekaterinburg	Russia	Wholesale	-	100%
ZAO Uniland Commercial Centres Ekaterinburg	Russia	Retailing	100%	100%
ZAO DIXY Ural	Russia	Real estate	100%	100%
OOO DIXY Chelyabinsk	Russia	Retailing	100%	100%
OOO Stroyregioninvest	Russia	Real estate	100%	100%
OOO Interfinance	Russia	Retailing	100%	
OAO YarTorgOdezhda	Russia	Retailing, Real estate	94.4%	75%

In 2005 the immediate shareholder of the Company founded a wholly-owned subsidiary OOO 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 3).

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 Financial Statements as if the businesses had been combined from the earliest period presented - 1 January 2005 (refer to Note 2).

Registered address and place of business. The Group's operations are located in the Russian Federation. The head office of the Company is located at 1st Smolensky alley, 5, building 1, Moscow, Russian Federation.

Financial position of the Group. As at 31 December 2006 the Group's current liabilities exceeded the Group's current assets by 3,589,732. 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.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Presentation currency. All amounts in these financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries from parties that are not under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Purchases of minority interests. Excess of cost of acquisition over carrying value of minority interest is recognized as goodwill in the balance sheet. Excess of carrying value of minority interest over cost of its acquisition (negative goodwill) is recognized in the income statement.

Purchases of businesses from parties under common control. Purchases of businesses from parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the later of the beginning of the earliest period presented or the date when the business was initially acquired by a party under common control from a third party. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

2 Basis of Preparation and Significant Accounting Policies (continued)

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required, except for land.

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.

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. 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.

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 Basis of Preparation and 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, eg its maintenance, are expensed when incurred.

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

	Useful lives in years
Trademarks	10-20 years
Software licenses	5-7 years
Favourable lease agreements – over the lease term	5-9 years

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.

2 Basis of Preparation and Significant Accounting Policies (continued)

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.

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.

Financial instruments: key measurement terms. Depending on their classification financial instruments are carried at fair value or at amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. In other than active markets, the most recent arms length transactions or valuation techniques such as discounted cash flows models and consideration of financial data of the investees are used to fair value financial instruments.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are not presented separately and are included in the carrying values of related balance sheet items.

Initial recognition of financial instruments. Financial instruments categorised as at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

2 Basis of Preparation and Significant Accounting Policies (continued)

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

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. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are classified as non-current assets.

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.

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. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. A provision is also recorded for any taxes that are payable but not declared in the tax accounts of the Group entities. This provision is released to the income statement after three years. The movements in the provision are recorded within operating expenses.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. All borrowing costs are expensed.

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.

2 Basis of Preparation and Significant Accounting Policies (continued)

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 ("RR").

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 2006 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 26.3311 (2005: US$ 1 = RR 28.7825).

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

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 and social insurance funds based on employees' salaries. The state pension scheme is classified as a defined contribution plan. The Group has no further payment obligations once the contributions have been paid.

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.

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.

3 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Estimates

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 9.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations (refer to Note 29).

Judgements

Buy-out of minority interests

In 2006 and 2005 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 24,084 was treated as goodwill (in 2005 it was a positive difference amounting 16,057 and was recognized in the income statement) (refer to Note 30).

Consolidation of a special purpose entity

In 2005 the immediate shareholder of the Company founded a wholly-owned subsidiary OOO Dixy Finance. The objective of OOO 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 OOO Dixy Finance represents a special purpose entity controlled by the Group and is therefore consolidated in these financial statements.

Purchase of Planeta business from an entity under common control

The Group purchased the assets (buildings and favourable lease contracts) of OOO Planeta Management, an entity under common control. At the same time employees of OOO Planeta Management were transferred to the Group's entities. In management's judgement these transactions represent the purchase of business of OOO Planeta Management as the transferred assets and employees were an integrated set of activities and assets (retail stores) and there was a goodwill attached to those attributable to the locations of the buildings owned or leased on the favourable terms by OOO Planeta Management (refer to Note 9). The Group's accounting policy is to account for purchases of businesses from entities under common control using the pooling of interest method (refer to Note 2). Accordingly, the pooling of interest method was applied to this transaction.

The Group has a loan receivable of 221,508 due from OOO Planeta Management that it purchased in 2004 from the previous owner of OOO Planeta Management. The loan bears interest of 14%. As management did not ever intend to recover this receivable (this was part of the purchase consideration for the acquisition of Planeta business by the predecessor) this receivable was initially recognised at fair value but then was fully impaired as of 1 January 2005, the first balance sheet date after the acquisition of Planeta business by the predecessor when management considered the recoverability of this receivable.

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 7). 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.

(in thousands of Russian roubles, unless otherwise indicated)

4 First-time adoption of IFRS

The Group has not presented 2004 financial statements in accordance with IFRS and is therefore considered to be a first-time adopter of IFRS with a transition date to IFRS on 1 January 2005. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2006. This version was applied in preparing the opening IFRS balance sheet at 1 January 2005 and in subsequent periods up to the first IFRS reporting date. In preparing these consolidated financial statements, the Group has applied the mandatory exceptions and has elected not to apply any optional exemptions from retrospective application allowed by IFRS 1. In preparing these consolidated financial statements, the Group measured its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

Exceptions from retrospective application, which are mandatory under IFRS 1 are:

(a) ***Derecognition of financial assets and liabilities exception.*** Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. Management did not choose to apply the IAS 39 derecognition criteria from an earlier date.

(b) ***Hedge accounting exception.*** The Group does not apply hedge accounting.

(c) ***Estimates exception.*** Estimates under IFRS at 1 January 2005 and 31 December 2005 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error.

The following reconciliations provide a quantification of the effect of the transition from Russian Accounting Regulations ("RAR") to IFRS at 1 January 2005, 31 December 2005, 31 December 2006 and for the years 2005 and 2006:

	31 December 2006	31 December 2005	1 January 2005
Equity under RAR	**(3,234)**	**(4,223)**	**(856)**
Effects of changes in accounting policies:			
(i) Consolidation of subsidiaries	1,703,258	1,526,031	983,028
IFRS Equity	**1,700,024**	**1,521,808**	**982,172**

	2006	2005
Loss under RAR	**(2,245)**	**989**
Effects of changes in accounting policies:		
(i) Consolidation of subsidiaries	245,512	283,790
IFRS profit	**243,267**	**284,779**

The key adjustments for the differences between RAR and IFRS were attributable to the following:

(i) ***Consolidation of subsidiaries.*** The Company's Russian statutory financial statements include only assets, liabilities, equity and income and expense items of the Company. IAS 27 "Consolidated and Separate Financial Statements" requires consolidation of all subsidiaries.

The Group's operating, investing and financing cash flows reported under RAR did not significantly differ from IFRS except for the consolidation of cash flows of subsidiaries as described above.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted.

Amendment to IAS 23 Borrowing Costs (effective from 1 January 2009). The amendment eliminates the option of immediate recognition of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense. The management expects that the Group will have capitalisable borrowing costs and considers the earlier adoption of the standard.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006). IFRIC 7 clarifies calculation of deferred taxes in applying the restatement approach under IAS 29. The Group's accounting policies are already in compliance with this clarification.
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). The interpretation clarifies the accounting standard IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently move nil or inadequate consideration. The Group's accounting policies is already in compliance with this clarification.
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The Interpretation applies to all embedded derivatives under IAS 39 *Financial Instruments: Recognition and Measurement* and clarifies certain aspects of their treatment. The Interpretation is not applicable to the Group's operations.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). The Interpretation addresses the apparent conflict between the requirements of IAS 34 *Interim Financial Reporting* and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. The Interpretation is not applicable to the Group.
- 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 (effective for annual periods beginning on or after 1 January 2008). The Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The Interpretation is not applicable to the Group's operations.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

(in thousands of Russian roubles, unless otherwise indicated)

6 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 districts 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 27);
- 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 27).

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.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2006 and 2005 is set out below:

	Retail – Dixy	Retail - Megamart	Wholesale	Minimart	Eliminations	Group
2006						
Sales of continuing operations – external	24,288,493	2,638,318	-	508,981	-	27,435,792
Sales of discontinued operations – external	-	412,855	1,988,264	-	-	2,401,119
Sales to other segments	-	-	169,863	-	(169,863)	-
Total revenue	**24,288,493**	**3,051,173**	**2,158,127**	**508,981**	**(169,863)**	**29,836,911**
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)

(in thousands of Russian roubles, unless otherwise indicated)

6 Segment Information (continued)

	Retail – Dixy	Retail - Megamart	Wholesale	Minimart	Eliminations	Group
Profit before income tax						**394,066**
Income tax expense						(108,452)
Profit for the year from continuing operations						**285,614**
Segment result – discontinued operatons	-	(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**
Unallocated cash and cash equivalents	-					17,121
Other unallocated assets						326,134
Total assets						**12,798,159**
Total segment liabilities	3,354,823	207,647	-	70,831	-	3,633,301
Current and deferred tax liability						433,521
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						**11,098,135**
Capital expenditure	3,660,133	104,430	1,859	46,851	-	3,813,273
Depreciation and amortisation – continuing operations	416,007	26,000	-	-	-	442,007
Depreciation charge – discontinued operations	-	2,949	4,169	-	-	7,118

(in thousands of Russian roubles, unless otherwise indicated)

6 Segment Information (continued)

	Retail – Dixy	Retail - Megamart	Wholesale	Minimart	Eliminations	Group
2005						
Sales of continuing operations – external	18,179,623	1,885,795	-	-	-	20,065,418
Sales of discontinued operations – external	-	790,251	3,457,320	-	-	4,247,571
Sales to other segments	-	-	299,630	-	(299,630)	-
Total revenue	**18,179,623**	**2,676,046**	**3,756,950**	**-**	**(299,630)**	**24,312,989**
Segment result - continuing operations	235,812	335,018	-	-	-	570,830
Unallocated gain on buy-out of minority interest						16,057
Unallocated expenses						(48,211)
Operating profit						**538,676**
Finance income						12,909
Finance costs						(227,108)
Profit before income tax						**324,477**
Income tax expense						(118,608)
Profit for the year from continuing operations						**205,869**
Segment result – discontinued operatons	-	(4,501)	131,480	-	-	126,979
Unallocated expenses and finance costs – discontinued operations						(16,622)
Profit before income tax – discontinued operations						**110,357**
Income tax expense - discontinued operation						(31,447)
Profit from and gain on disposal of discontinued operations						78,910
Investments in associates	50,000	-	-	-	-	50,000
Other segment assets	6,997,349	552,860	927,973	-	-	8,478,182
Total segment assets	**7,047,349**	**552,860**	**927,973**	**-**	**-**	**8,528,182**
Unallocated cash and cash equivalents						23,403
Other unallocated assets						43,243
Total assets						**8,594,828**
Total segment liabilities	**2,328,762**	**421,437**	**461,446**			**3,211,645**
Current and deferred tax liability						436,096
Bank loans						1,754,083
Borrowings from ultimate shareholder and parties under common control						1,553,424
Finance lease liabilities						96,863
Other unallocated liabilities						20,909
Total liabilities						**7,073,020**

(in thousands of Russian roubles, unless otherwise indicated)

6 Segment Information (continued)

	Retail – Dixy	Retail - Megamart	Wholesale	Minimart	Eliminations	Group
Capital expenditure	2,175,908	78,522	2,614			2,257,044
Depreciation and amortisation – continuing operations	230,467	11,276				241,743
Depreciation charge – discontinued operations		9,343	8,813			18,156

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
2006				
Total segment assets	7,336,691	2,815,471	2,302,742	12,454,904
External revenue – continuing operations	15,262,954	7,059,757	5,113,081	27,435,792
External revenue – discontinued operations	-	412,855	1,988,264	2,401,119
Capital expenditure	2,075,201	930,813	807,259	3,813,273

	Central region	North-West region	Ural	Total
2005				
Total segment assets	4,787,034	1,546,656	2,194,492	8,528,182
External revenue – continuing operations	11,388,211	5,377,043	3,300,164	20,065,418
External revenue – discontinued operations	-	790,251	3,457,320	4,247,571
Capital expenditure	1,612,638	295,132	349,274	2,257,044

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.

(in thousands of Russian roubles, unless otherwise indicated)

7 Balances and Transactions with Related Parties

For the purposes of these financial statements, 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 are disclosed in Note 1.

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
Borrowings (refer to Note 19)	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

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 2005 are detailed below. At 31 December 2005, the outstanding balances with related parties were as follows:

	Ultimate shareholder	Entities under common control	Total
Gross amount of trade receivables	-	112	112
Gross amount of other receivables	-	98,674	98,674
Gross amount of loans given	-	354	354
Borrowings (refer to Note 19)	27,749	1,525,675	1,553,424

As at 31 December 2005 the Group set up a provision for a gross amount of Other receivables from the related party. The receivables were subsequently written off from the related party.

The income and expense items with related parties for the year 2005 were as follows:

	Entities under common control	Total
Interest income	6,005	6,005
Interest expense	172,130	172,130

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 19).

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 19). 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 23).

7 Balances and Transactions with Related Parties (continued)

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 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 36,531 (2005: 54,359).

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 147,877. In August 2006 the Group purchased Interfinance from the entity under common control for a cash consideration 8,630 (refer to Note 30).

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 (refer to Note 30).

OOO 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 OOO 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 (refer to Notes 3 and 30).

Put option of an entity under common control

Refer to Note 29.

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 (nil in 2005).
Audit fees in amount of 3,107 in 2006 (17,166 in 2005) were paid by an entity under common control (Dixy Retail).

(in thousands of Russian roubles, unless otherwise indicated)

8 Property, Plant and Equipment

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

	Note	Buildings	Renovation of stores	Equipment	Construction in progress	Total
Cost at 1 January 2005		511,092	309,171	576,842	239,267	1,636,372
Accumulated depreciation		(6,809)	(106,126)	(172,009)	-	(303,100)
Carrying amount at 1 January 2005		**504,283**	**203,045**	**404,833**	**239,267**	**1,351,428**
Acquisitions through business combinations	30, 31	149,277	-	11,684	102,204	263,165
Additions		683,240	104,768	407,042	356,943	1,551,993
Transfers		167,638	-	1,178	(168,816)	-
Disposals		-	-	(24,772)	(1,196)	(25,968)
Depreciation charge – continuing operations	23	(42,752)	(60,623)	(107,147)	-	(210,522)
Depreciation charge - discontinued operations		-	-	(18,156)	-	(18,156)
Carrying amount at 31 December 2005		1,461,686	247,190	674,662	528,402	2,911,940
Cost at 31 December 2005		1,511,247	413,939	971,974	528,402	3,425,562
Accumulated depreciation		(49,561)	(166,749)	(297,312)	-	(513,622)
Carrying amount at 31 December 2005		**1,461,686**	**247,190**	**674,662**	**528,402**	**2,911,940**
Acquisitions through business combinations	31	-	-	-	1,615	1,615
Additions		204,775	353,722	742,763	2,305,284	3,606,544
Transfers		1,243,153	-	-	(1,243,153)	-
Disposals – continuing operations		(45,882)	(37)	(29,154)	-	(75,073)
Disposals – discontinued operations		(49,019)	-	(13,928)	-	(62,947)
Depreciation charge – continuing operations	23	(84,033)	(91,943)	(223,579)	-	(399,555)
Depreciation charge – discontinued operations		-	-	(7,118)	-	(7,118)
Carrying amount at 31 December 2006		2,730,680	508,932	1,143,646	1,592,148	5,975,406
Cost at 31 December 2006		2,862,197	739,287	1,605,920	1,592,148	6,799,552
Accumulated depreciation		(131,514)	(230,355)	(462,277)	-	(824,146)
Carrying amount at 31 December 2006		**2,730,683**	**508,932**	**1,143,643**	**1,592,148**	**5,975,406**

The Group has buildings held under finance leases with a carrying value of 188,354 (2005: 160,789) (refer to Note 20).

At 31 December 2006 buildings and equipment carried at 529,837 (2005: 263,804) have been pledged to third parties as collateral for borrowings (refer to Note 19).

(in thousands of Russian roubles, unless otherwise indicated)

9 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2006	2005
Carrying amount at 1 January 2005		**378,627**	**141,440**
Acquisition of subsidiaries	3, 30, 31	25,976	237,187
Carrying amount at 31 December 2005		**404,603**	**378,627**

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:

		2006	2005
Retail stores located in Yaroslavl and Yaroslavl region (former OOO Planeta Management and its subsidiaries and YarTorgOdezhda)	30, 31	165,523	141,440
Retail stores located in Ryazan and Ryazan region	31	217,252	217,252
Retail stores located in Kolomna	30	19,935	19,935
Retail stores located in Smolensk	31	1,893	-
Total carrying amount of goodwill		**404,603**	**378,627**

As of 31 December 2006 and 2005 the recoverable amount of Yaroslavl group 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:

	2006	2005
Sales growth within five years	9%-12%	4-7%
Gross margin	22-26%	20-22%
Growth rate beyond five years	4% p.a.	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 – 5%, gross margin – 22%, discount rate – 10%, no subsequent growth beyond five years) the Group would still recognise no impairment.

As of 31 December 2006 and 2005 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 and 2005 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.

(in thousands of Russian roubles, unless otherwise indicated)

10 Other Intangible Assets

	Note	Internally developed software	Favourable operating lease agreements	Total
Cost at 1 January 2005		7,158	122,670	129,828
Accumulated amortisation		(39)	-	(39)
Carrying amount at 1 January 2005		**7,119**	**122,670**	**129,789**
Acquisitions through business combinations	30, 31	-	436,035	436,035
Additions		5,851	-	5,851
Amortisation charge	23	(4,340)	(26,881)	(31,221)
Carrying amount at 31 December 2005		**8,630**	**531,824**	**540,454**
Cost at 31 December 2005		13,009	558,705	571,714
Accumulated amortisation		(4,379)	(26,881)	(31,260)
Carrying amount at 31 December 2005		**8,630**	**531,824**	**540,454**
Acquisitions through business combinations	31	-	198,026	198,026
Additions		8,703	-	8,703
Disposals		(3,660)	-	(3,660)
Amortisation charge	23	(2,423)	(40,029)	(42,452)
Impairment charge to profit or loss		-	-	
Carrying amount at 31 December 2006		**11,250**	**689,821**	**701,071**
Cost at 31 December 2006		18,052	756,731	774,783
Accumulated amortisation and impairment		(6,802)	(66,910)	(73,712)
Carrying amount at 31 December 2006		**11,250**	**689,821**	**701,071**

Favourable lease agreements as of 1 January 2005 of 122,670 represent lease agreements of Planeta business (refer to Note 7) acquired by the predecessor on 29 December 2004 and therefore do not have accumulated amortisation balance (refer to Note 30).

(in thousands of Russian roubles, unless otherwise indicated)

11 Investments in Associates

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	Note	2006	2005
Carrying amount at 1 January		50,000	-
Fair value of net assets of associate acquired		-	33,600
Goodwill arising on acquisition of associate		-	16,400
Share in result of associate		2,744	-
Sale of associate		(52,744)	-
Carrying amount at 31 December		-	**50,000**

The Group sold the associate on 31 October 2006 for 54,539, realising a gain of 1,795.

At 31 December 2005, the Group's interests in its principal associate and its summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total Liabilities	Revenue	Profit	% interest held	Country of incorporation
Avtoremontny kombinat	169,844	3,178	11,310	10,944	30%	Russia
Total	**169,844**	**3,178**	**11,310**	**10,944**		

Total assets above include goodwill and fair value adjustments on acquisition of the associate.

12 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.

13 Inventories

	2006	2005
Goods for resale	1,645,859	1,635,730
Raw materials and operating supplies	7,370	3,465
Less: obsolescence provision	(12,099)	(8,996)
Total inventories	**1,641,130**	**1,630,199**

Inventories of nil (2005: 164,047) have been pledged as collateral for borrowings (refer to Note 19).

Inventory write-down in 2006 comprised 135,263 (2005:134,221).

(in thousands of Russian roubles, unless otherwise indicated)

14 Trade and Other Receivables

	2006	2005
Trade receivables	166,394	591,673
Prepayments	413,330	156,219
VAT recoverable	441,337	404,356
Prepaid expenses	16,322	37,264
Taxes prepaid	43,296	29,838
Other receivables	63,353	49,999
Total trade and other receivables	**1,144,032**	**1,269,349**

Trade receivables as of 31 December 2006 and 2005 are denominated mainly in Russian roubles.

15 Loans given

The current portion of the loans given primarily represents loans given to related parties (refer to Note 7) for a term up to 12 months and bear interest in the range from 9.5% to 12.65% (2005: 5%-6%) and are not secured.
The non – current portion of the loans given relates to the disposed wholesale business. The loans were provided when the wholesale business was still part of the Group. Interest on this loan is 9.5% and repayment is expected in 2011.

16 Cash and Cash Equivalents

	2006	2005
Cash on hand - roubles	59,331	119,920
Russian rouble denominated bank balances due on demand (interest rate: 0.5% p.a.; 2005: 0.5% p.a.)	224,383	370,654
US$ denominated bank balances due on demand (interest rate: 0.5% p.a.; 2005: 0.5% p.a.)	214	5,317
Time deposits (interest rate: 10% p.a.; 2005: 10% p.a.)	-	189,649
Cash in transit - roubles	394,976	210,589
Total cash and cash equivalents	**678,904**	**896,129**

Time deposits have original maturities of less than three months. As of 31 December 2006 time deposits are pledged as collateral for current borrowings of nil (2005: 179,430) (refer to Note 19).

17 Share Capital and Equity

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

In March 2007 the Company split its 500 shares into 50,000,000 shares of a par value of 0.1 RR per share. The shares rank equally. Each share carries one vote (refer to Note 33).

No dividends were paid in 2006 (2005: nil). No dividends were declared or paid subsequent to 31 December 2006 up to the date of authorisation of these financial statements for issue.

18 Bonds

In March 2006 the Group issued 3,000,000 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 2006 the Group had accrued coupon 76,782.

(in thousands of Russian roubles, unless otherwise indicated)

19 Borrowings

	2006	2005
Term bank loans	3,374,415	1,754,083
Loan from ultimate shareholder (Note 7)	19,500	27,749
Loan from entities under common control (Note 7)	358,426	1,525,675
Total borrowings	**3,752,341**	**3,307,507**

The Group's borrowings mature as follows:

	2006	2005
Borrowings due:		
- within 1 year	3,322,017	1,602,449
- between 2 and 5 years	430,324	1,705,058
Total borrowings	**3,752,341**	**3,307,507**

The effective interest rates (all fixed) at the balance sheet date were as follows:

	31 December 2006		**31 December 2005**	
In % per annum	Russian Roubles	US Dollars	Russian Roubles	US Dollars
Term bank loans	10%	-	11%	9%
Loans from related parties	-	13%	10%	12%
Total borrowings	**10%**	**13%**	**10%**	**11%**

Buildungs, equipment, inventories and cash are pledged as collateral for borrowings of 434,305 (2005: 421,039) (refer to Notes 8, 13 and 16).

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.

(in thousands of Russian roubles, unless otherwise indicated)

20 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 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**
Minimum lease payments at 31 December 2005	**45,242**	**115,547**	**160,790**
Less future finance charges	(29,296)	(34,630)	(63,926)
Present value of minimum lease payments at 31 December 2005	**15,946**	**80,917**	**96,863**

21 Trade and Other Payables

	Note	2006	2005
Trade payables		2,890,333	2,134,923
VAT payable		128,047	189,819
Payroll taxes payable		29,268	11,549
Payables to employees		111,307	72,040
Advances from customers		109,705	60,763
Other liabilities and accruals		104,475	80,625
Trade and other payables		**3,373,135**	**2,549,719**

As of 31 December 2006 and 2005 trade payables are denominated mainly in Russian roubles.

22 Analysis of Revenue from Continuing Operations by Category

	Note	2006	2005
Sales of goods		26,981,609	19,714,490
Marketing revenue		367,573	319,649
Sublease income		86,610	31,279
Total revenue from continuing operations		**27,435,792**	**20,065,418**

(in thousands of Russian roubles, unless otherwise indicated)

23 General and Administrative Expenses

	Note	2006	2005
Staff costs		2,598,631	1,493,734
Operating lease expenses		1,074,983	586,384
Transportation and handling costs		164,307	132,066
Depreciation of property, plant and equipment and amortisation and impairment of intangible assets	8,10	442,007	241,743
Supplies and materials		169,494	93,165
Shrinkage of inventories		135,263	134,221
Utilities		157,139	97,650
Repair and maintenance costs		137,238	111,719
Information, consulting and other services		60,803	42,744
Bank charges		63,734	54,051
Advertising services		81,751	49,043
Business related expenses		14,972	28,277
Telecommunication expenses		35,778	19,700
Taxes other than income tax		50,855	14,427
Security services		14,537	6,620
Other operating expenses		(250,567)	236,238
Total general and administrative expenses:		**4,950,925**	**3,341,782**

Included in staff costs are statutory social security and pension contributions (unified social tax) of 421,665 (2005: 110,516).

Operating lease expenses relate to cancellable operating leases with terms from 1 to 10 years.

Included in other operating expenses are the net amounts of certain revenue related tax savings and related tax provisions (refer to Note 29) in the amount of positive 295,412 (2005: negative 71,831).

Included in other operating expenses is the gain resulting from the loan forgiveness by ultimate controlling shareholder in the amount of 27,749 (refer to Note 7).

24 Finance income

	Note	2006	2005
Interest income	7,19	87,584	12,909
Foreign exchange gains less losses from borrowings	19	48,136	-
Total other finance costs		**135,720**	**12,909**

25 Finance costs

	Note	2006	2005
Interest expense	7,19	513,182	204,556
Foreign exchange losses less gains from borrowings	19	-	22,552
Total other finance costs		**513,182**	**227,108**

(in thousands of Russian roubles, unless otherwise indicated)

26 Income Taxes

Income tax expense comprises the following:

	2006	2005
Current tax	91,765	89,756
Deferred tax	16,687	28,852
Income tax expense for the year	**108,452**	**118,608**

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

	2006	2005
IFRS profit before tax	**394,066**	**324,477**
Theoretical tax charge at statutory rate 24% (2005: 24%)	94,576	77,874
Tax effect of items which are not deductible or assessable for taxation purposes:		
Gain on buy-out of minorities (Note 3)	-	(3,854)
Unrecognised deferred tax assets	59,316	6,215
Increase in deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries	(36,417)	10,994
(Non-taxable income) / Non-deductible expenses	(9,023)	27,379
Income tax expense for the year	**108,452**	**118,608**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2005: 24%).

	1 January 2006	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	15,810	-	-	1,378	17,188
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	-
Net deferred tax liability	**(345,463)**	**(49,786)**	**75,904**	**(14,427)**	**(333,772)**

(in thousands of Russian roubles, unless otherwise indicated)

26 Income Taxes (continued)

	1 January 2005	Business combinations	Credited / (charged) to profit or loss	31 December 2005
Tax effect of deductible / (taxable) temporary differences and tax losses carried forward				
Accounts receivable	4,141	-	(4,141)	-
Accounts payable	(3,172)	1,992	1,979	799
Tax losses carried forward	12,853	-	2,957	15,810
Property, plant and equipment, and Other intangible assets	(180,235)	(121,071)	(17,086)	(318,392)
Inventories	(5,696)	-	(1,567)	(7,263)
Investments in subsidiaries	(25,423)	-	(10,994)	(36,417)
Net deferred tax liability	**(197,532)**	**(119,079)**	**(28,852)**	**(345,463)**

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of 224,344 (2005: 141,142). The tax loss carry forwards expire in 2015.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of 2,964,742 (2005: 1,836,262) 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.

Temporary differences in accounts receivable represent timing differences in recognition of certain prepaid expenses. Temporary differences in property, plant and equipment represent timing differences due to different useful lives and fair value adjustments on business combinations. Temporary differences in inventories represent timing differences of recognition of cost of goods sold.

27 Discontinued operations

ZAO 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:

	Note	2006	2005
Revenue		2,158,127	3,756,950
Expenses		(2,021,781)	(3,625,470)
Loss on disposal of the discontinued operation		(186,711)	-
Finance costs – discontinued operations			(16,622)
(Loss) / Profit before tax of discontinued operations		**(50,365)**	**114,858**
Income tax		(1,597)	(36,184)
Profit after tax of discontinued operations		**(51,962)**	**78,674**

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

	Note	2006	2005
Operating cash flows		(4,032)	6,982
Investing cash flows		9,883	-
Financing cash flows		(7,694)	(7,005)
Total cash flows		**(1,843)**	**(23)**

(in thousands of Russian roubles, unless otherwise indicated)

27 Discontinued Operations (continued)

ZAO 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:

	Note	2006	2005
Revenue		412,855	790,251
Expenses		(515,481)	(794,752)
Gain on disposal of the discontinued operation		97,906	-
(Loss) before tax of discontinued operations		**(4,720)**	**(4,501)**
Income tax		14,335	4,737
Profit after tax of discontinued operations		**9,615**	**236**

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

	Note	2006	2005
Operating cash flows		(41,384)	5,057
Investing cash flows		-	-
Financing cash flows		23,676	-
Total cash flows		**(17,708)**	**5,057**

28 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 January 1, 2005 (refer to Note 33).

Earnings per share from continuing operations are calculated as follows:

	Note	2006	2005
Profit for the year from continuing operations attributable to ordinary shareholders		285,614	205,869
Weighted average number of ordinary shares in issue	17	50,000,000	50,000,000
Basic and diluted earnings per ordinary share from continuing operations (expressed in RR per share)		**5.71**	**4.12**

(in thousands of Russian roubles, unless otherwise indicated)

28 Earnings per Share (continued)

Earnings per share from discontinued operations are calculated as follows:

	Note	2006	2005
(Loss)/profit for the year from discontinued operations attributable to ordinary shareholders		(42,347)	78,910
Weighted average number of ordinary shares in issue	17	50,000,000	50,000,000
Basic and diluted (loss)/earnings per ordinary share from discontinued operations (expressed in RR per share)		**(0.85)**	**1.58**

29 Contingencies, Commitments and Operating Risks

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.

Capital expenditure commitments. At 31 December 2006 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totalling 149,926 (2005: 23,801).

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.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not in practice freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of Management. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, 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 preceding 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 26).

In preparing these consolidated financial statements management has reflected the actual revenues and expenditures, rather than their formal characterisation 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.

29 Contingencies, Commitments and Operating Risks (continued)

In the years ended 31 December 2006 and 2005 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 (2005: 86,610, out of which discontinued operations 16,889; 2004:20,811, out of which discontinued operations 6,906). During 2006, 4,104 of these liabilities has been released (2005: 36,800) and 9,860 was accrued (2005: 92,616). In addition, as of 31 December 2006 management has recorded a provision for taxes other than on income in the amount of 336,759 (2005: 682,835, out of which discontinued operations 142,197; 2004:346,157, out of which discontinued operations 113,345). During 2006, 398,572 of the provision was released (2005: 178,827) and an additional 194,689 was accrued (2005: 486,658). 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 and 2005 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.

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 2006 and 2005 of potential liabilities that have not been provided for because management believes they are less than probable, is similar in size to the amounts provided at these respective dates for taxes other than on income and amounts accrued as current and deferred income tax in these financial statements.

Put option of an entity under common control

The Company is 100% owned by Dixy Retail Ltd (BVI) through Dixy Holding Ltd (Cyprus).

Dixy Retail Ltd has written a put option to minority shareholders giving rise to an obligation by Dixy Retail Ltd to redeem all its preference shares at a fixed annual compounded return if Dixy Retail Ltd. does not consummate an Initial Public Offering ("IPO") by April 2009.

Should the minority shareholders exercise the put option, Dixy Retail, as a company that is not generating profits, can take a shareholder decision to distribute profits of its subsidiaries, including the Company.

Present value of the liability of Dixy Retail Ltd for its puttable shares as of 31 December 2006 amounted to 2,666,260 (2005: 2,090,590).

30 Business Combinations

YarTorgOdezhda

On 6 February 2005 the Group acquired a 75.02% interest in OAO YarTorgOdezhda for a cash consideration of 76,760 (61,673 of which was prepaid in 2004). OAO YarTorgOdezhda owned several buildings in Yaroslavl and rented them out to third party lessees. The acquired subsidiary contributed revenue of nil and loss of 1,278 to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would be 2,515 higher, whereas profit for 2005 would not have significantly changed.

(in thousands of Russian roubles, unless otherwise indicated)

30 Business Combinations (continued)

YarTorgOdezhda (continued)

This business combination was accounted for using the purchase method. Details of the assets, liabilities and contingent liabilities acquired are as follows:

	Note	Russian GAAP amount immediately before business combination	Attributed fair value
Property, plant and equipment	8	3,163	127,931
Trade and other receivables		3,330	3,330
Inventories		1,047	1,938
Trade and other payables		(8,600)	(8,600)
Deferred income tax liability	26	-	(22,254)
Net assets of subsidiary		**(1,060)**	**102,344**
Less: minority interest		-	(25,585)
Acquired interest in net assets of subsidiary / purchase consideration / outflow of cash and cash equivalents on acquisition			**76,760**

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 (refer to Notes 3 and 9).

OOO Novatsia

On 19 May 2005 the Group acquired 100% of the share capital of OOO Novatsia for a cash consideration of 90,000. OOO Novatsia operated a chain of retail stores in Kolomna, Moscow region. The acquired subsidiary contributed revenue of nil and loss of 25,933 to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, Group’s revenue would not have changed and Group’s profit would have increased by 2,446.

This business combination was accounted for using the purchase method. Details of the assets, liabilities and contingent liabilities acquired and goodwill arising are as follows:

	Note	Russian GAAP amount immediately before business combination	Attributed fair value
Property, plant and equipment	8	32,795	33,030
Favorable lease agreements (included in Other Intangible Assets)	10	-	56,888
Loans given		468	-
Trade and other payables		-	(8,133)
Deferred income tax liability	26	-	(11,718)
Acquired interest in net assets of subsidiary		**33,263**	**70,065**
Goodwill arising from the acquisition	9		19,935
Total purchase consideration / outflow of cash and cash equivalents on acquisition			**90,000**

The goodwill was mainly attributable to the exclusive position the Group obtained on the retail market of Kolomna with the acquisition of OOO Novatsia.

(in thousands of Russian roubles, unless otherwise indicated)

30 Business Combinations (continued)

Determining pre-acquisition carrying amounts and fair value estimates

Pre-acquisition carrying amounts reported for all of the above business combinations are in accordance with Russian GAAP. The disclosure of the carrying amounts of the assets and liabilities of the acquirees, determined in accordance with IFRS, immediately before the combination is impracticable because the acquirees do not prepare IFRS financial statements.

Fair values of assets and liabilities acquired are based on discounted cash flow models and market values of comparable assets and liabilities. The valuation of identifiable intangible assets was performed by an independent professional appraiser.

31 Purchases of businesses from parties under common control

OOO Planeta Management

In December 2004 an entity under common control acquired OOO Planeta Management that used to operate a chain of stores in Yaroslavl, Ryazan and Moscow region. In 2005 the Group purchased the assets (buildings and rent contracts for buildings of stores) that represented the business of OOO Planeta Management, an entity under common control (refer to Note 3). The total consideration paid is 137,712, of which 28,638 was paid in 2006 and 109,074 in 2005.

This business combination was accounted for using the pooling of interest method, whereby OOO Planeta Management business was consolidated starting from 1 January 2005. 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 OOO Planeta Management by predecessor shareholder is also recorded in these financial statements. The goodwill was mainly attributable to the exclusive position the Group obtained on the retail market in Yaroslavl, Ryazan and Moscow region with the acquisition of the business of OOO Planeta Management.

Details of the assets, liabilities and contingent liabilities as of 1 January 2005 are as follows:

	Note	Predecessor Shareholder Carrying Amount
Property, plant and equipment		338,800
Goodwill	9	141,440
Favorable lease agreements (included in Other Intangible Assets)	10	122,670
Inventory		70,828
Deferred income tax liability		(105,002)
Net assets of subsidiary at 1 January 2005		**568,736**
Less: outflow of cash and cash equivalents on acquisition		(137,712)
Adjustment to retained earnings as at 1 January 2005		**431,024**

(in thousands of Russian roubles, unless otherwise indicated)

31 Purchases of businesses from parties under common control (continued)

Stroyregioninvest

In 2005 an entity under common control purchased OOO Stroyregioninvest, whereby the Group paid 158,801 in 2006 and 94,000 in 2005 for this acquisition on behalf of the entity under common control. In December 2006 the Group purchased Stroyregioninvest from the entity under common control for the cash consideration of 10. Before acquisition, the core business activity of Stroyregioninvest was constructing of stores with a view to derive economic benefit from their subsequent resale. The acquired subsidiary contributed revenue of nil and profit of nil to the Group for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, Group's revenue would not have changed and the Group's profit would have decreased by 5,527.

OOO Stroyregioninvest has been consolidated starting 29 December 2005 when it was initially acquired by the entity under common control, using pooling of interest method (refer to Note 2). 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 OOO Stroyregioninvest by predecessor shareholder is also recorded in these financial statements. The goodwill was mainly attributable to the advantageous locations of the acquiree's buildings under construction that the Group was subsequently able to use as retail outlets.

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

	Note	**Predecessor Shareholder Carrying Amount**
Cash and cash equivalents		106
Constructions in progress (included in Property, plant and equipment)	8	102,204
Capital advances		30,069
Favorable lease agreements (included in Other Intangible Assets)	10	379,147
Goodwill	9	217,252
Trade and other receivables		30,884
Borrowings		(194,726)
Trade and other payables		(27,861)
Deferred income tax liability	26	(85,107)
Net assets of subsidiary at 29 December 2005		**451,968**
Less: outflow of cash and cash equivalents on acquisition in 2005 and 2006		(252,811)
Adjustment to retained earnings as at 31 December 2006		**199,157**

As 158,811 was paid in 2006, adjustment to retained earnings as at 31 December 2005 (non-cash transaction excluded from the statement of cash flows in 2005) comprised 357,968.

Interfinance

In August 2006 an entity under common control acquired 100% of OOO Interfinance for a cash consideration of 147,876. In October 2006 the Group purchased OOO 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 OOO 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. OOO 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). 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 OOO 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.

(in thousands of Russian roubles, unless otherwise indicated)

31 Purchase of businesses from parties under common control (continued)

Interfinance (continued)

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

	Note	Predecessor Shareholder Carrying Amount
Property, plant and equipment	8	1,615
Favorable lease agreements (included in Other Intangible Assets)	10	198,026
Goodwill	9	1,893
Borrowings		(3,681)
Trade and other payables		(191)
Deferred income tax liability	26	(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**

32 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 16) and liabilities (refer to Note 19) 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.

Cash flow and fair value interest rate risk. The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest-bearing short-term and long-term borrowings (refer to Note 19) and bank deposits (refer to Note 16), which are at fixed interest rates.

Liquidity risk. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities as at 31 December 2006 is 327,400 (2005: 298,663) 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.

33 Events After the Balance Sheet Date

Reorganization of ZAO “Company Uniland Holding”

In March 2007, the Company was reorganized into Open Joint Stock Company and renamed as “Dixy Group”. The Company split its ordinary 500 shares into 50,000,000 ordinary shares. Each share has a nominal value of 0.1 RR per share. The shares rank equally. Each share carries one vote (refer to Notes 17 and 28).

Unaudited Supplementary Information
to the Financial Statements – 31 December 2006 and 2005

The unaudited supplementary information presented on the following three pages has been prepared by translating the consolidated balance sheet prepared in accordance with International Financial Reporting Standards into US dollars at the exchange rate of the Central Bank of the Russian Federation as of 31 December 2006 or 2005, the consolidated income statement and statement of cash flows are prepared in accordance with International Financial Reporting Standards into US dollars at the weighted average exchange rate of the Central Bank of the Russian Federation for the year ended 31 December 2006 or 2005, as appropriate. The Russian Rouble is the measurement currency for the financial statements prepared in accordance with International Financial Reporting Standards as it reflects the economic substance of underlying transactions..

The supplementary information has been displayed for convenience purposes only.

Consolidated Balance Sheets

In thousands US Dollars	2006 (unaudited)	2005 (unaudited)
ASSETS		
Non-current assets:		
Property, plant and equipment	226,933	101,171
Goodwill	15,366	13,155
Other intangible assets	26,625	18,777
Investments in associates	-	1,737
Loans given	7,123	91
Capital advances	46,989	27,915
Initial Lease costs	24,306	2,429
Total non-current assets	**347,342**	**165,275**
Current assets:		
Inventories	62,327	56,639
Trade and other receivables	45,167	44,137
Loans given	7,147	1,464
Cash and cash equivalents	25,783	31,135
Total current assets	**140,424**	**133,375**
TOTAL ASSETS	**487,766**	**298,650**
EQUITY		
Share capital	19	17
Additional paid-in capital	1,103	1,699
Other reserves	581	-
Retained earnings	62,683	50,268
Equity attributable to the Company's equity	**64,386**	**51,984**
Minority interest	**177**	**889**
TOTAL EQUITY	**64,563**	**52,873**
LIABILITIES		
Non-current liabilities:		
Bank Loans	16,343	6,748
Borrowings from ultimate shareholder and parties under common control	-	52,492
Bonds	113,934	-
Finance lease liabilities	3,496	2,811
Deferred tax liability	12,676	12,003
Total non-current liabilities	**146,449**	**74,054**
Current liabilities:		
Bank Loans	111,810	54,195

(in thousands of US Dollars, unless otherwise indicated)

Borrowings from ultimate shareholder and parties under common control	14,353	1,479
Bonds (interest)	2,916	-
Finance lease liabilities	1,274	554
Trade payable and other payables	128,105	93,526
Provisions for liabilites and charges	12,789	18,784
Income taxes payable	5,507	3,185
Total current liabilities	**276,754**	**171,723**
TOTAL LIABILITIES	**423,203**	**245,777**
TOTAL LIABILITIES AND EQUITY	**487,766**	**298,650**

Consolidated Income Statements

In thousands US Dollars	**2006 (unaudited)**	**2005 (unaudited)**
Revenue	1,009,218	709,366
Cost of goods sold	(798,886)	(572,749)
Gross profit	**210,332**	**136,617**
General and administrative expenses	(182,118)	(118,141)
Excess of carrying value of minority interest over cost of acquisition	-	568
Share in results of and gain on disposal of associate	167	-
Operating profit	**28,381**	**19,044**
Finance income	4,992	456
Finance costs	(18,877)	(8,029)
	(13,885)	**(7,573)**
Profit before income tax	**14,496**	**11,471**
Income tax expense	(3,989)	(4,193)
Profit for the year from continuing operations	**10,507**	**7,278**
Discontinued operations:		
Profit from and gain on disposal of discontinued operations	(1,558)	2,790
Profit for the year	**8,949**	**10,068**
Profit is attributable to:		
Equity holders of the Company	8,949	10,068
Profit for the year	**8,949**	**10,068**
Earnings per ordinary share for profit from continuing operations attributable to the equity holders of the Company, basic and diluted	0.21	0.15
Loss/(earnings) per ordinary share for loss/(profit) from discontinued operations attributable to the equity holders of the Company, basic and diluted	(0.03)	0.06

The exchange rate as of 31 December 2006 is 1 USD = 26.3311 RUR. The mean exchange rate for 2006 is 1 USD = 27.1852 RUR.

The exchange rate as of 31 December 2005 is 1 USD = 28.7825 RUR. The mean exchange rate for 2005 is 1 USD = 28.2864 RUR.

Consolidated Statements of Cash Flows

In thousands US Dollars	2006 (unaudited)	2005 (unaudited)
Cash flows from operating activities		
Profit before income tax from continuing operations	14,496	11,471
Adjustments for:		-
Depreciation of property, plant and equipment	14,698	7,443
Amortisation of intangible assets	1,562	1,104
Operating lease from initial lease costs	1,120	489
Gains less losses on disposals of property, plant and equipment and intangible assets	(271)	(792)
Increase in provision for inventory obsolescence	114	577
(Decrease) / Increase in provision for liabilities and charges	(7,500)	10,883
Excess of carrying value of minority interest over cost of acquisition	-	(568)
Interest expense on borrowings	18,877	7,232
Interest income on loans given and cash deposits	(3,222)	(456)
Share-based compensation of Group's director	562	-
Share in results of and gain on disposal of associate	(167)	-
Forgiveness of loan payable to ultimate shareholder	(1,021)	-
Unrealised foreign exchange losses less gains on borrowings	868	59
Operating cash flows before working capital changes	**40,116**	**37,442**
Increase in trade and other receivables	(16,853)	(22,723)
Increase in inventories	(20,430)	(5,562)
Increase in trade and other payables	51,258	36,115
Cash generated from operations	**54,091**	**45,272**
Income taxes paid	(2,502)	(1,319)
Interest paid	(12,311)	(6,775)
Net cash from operating activities – continuing operations	**39,278**	**37,178**
Net cash (used in) / from operating activities – discontinued operations	(1,671)	426
Net cash from operating activities	**37,607**	**37,604**
Cash flows from investing activities		
Purchase of property, plant and equipment	(142,606)	(66,957)
Proceeds from sale of property, plant and equipment	2,687	1,470
Proceeds from sale of associate	2,006	-
Proceeds from sale of subsidiaries	824	-
Initial Lease costs paid	(23,619)	(877)
Acquisitions of subsidiaries, net of cash acquired	-	(3,715)
Purchases of businesses from parties under common control, net of cash acquired	(6,895)	(7,179)
Loans returned	12,745	170
Loans provided	(15,014)	(1,168)
Interest received	119	188
Acquisitions of associates	-	(1,768)
Purchases of intangible assets	(322)	(207)
Net cash used in investing activities – continuing operations	**(170,075)**	**(80,043)**
Net cash provided from investing activities – discontinued operations	364	-
Net cash used in investing activities	**(169,711)**	**(80,043)**
Cash flows from financing activities		
Proceeds from borrowings	352,639	83,542
Repayment of borrowings	(220,928)	(21,961)
Buy-out of minorities	(1,655)	(126)
Proceeds from sale and leaseback transactions	-	4,703
Finance lease payments	(3,892)	(2,440)

(in thousands of US Dollars, unless otherwise indicated)

Net cash provided from financing activities – continuing operations	**126,164**	**63,718**
Net cash from / (used in) financing activities – discontinued operations	588	(248)
Net cash provided from financing activities	**126,752**	**63,470**
Net increase in cash and cash equivalents	**(5,352)**	**21,031**
Cash and cash equivalents at the beginning of the year	**31,135**	**10,104**
Cash and cash equivalents at the end of the year	**25,783**	**31,135**