

OJSC Dixy Group

International Financial Reporting Standards

Consolidated Financial Statements and Auditors' Report

For the Year Ended 31 December 2008

OJSC Dixy Group
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Independent Auditors' Report

To the Board of Directors of OJSC Dixy Group

We have audited the accompanying financial statements of OJSC Dixy Group and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

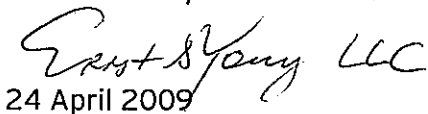
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


24 April 2009

OJSC Dixy Group

Consolidated Balance Sheet at 31 December 2008

(in thousands Russian roubles, unless otherwise indicated)

	Notes	2008	2007
Assets			
Non-current assets			
Property, plant and equipment	5	12,067,845	8,503,172
Capital advances		981,505	1,512,406
Goodwill	6	404,603	404,603
Other intangible assets	7	727,433	642,761
Loans		17,876	3,176
Initial lease costs		368,943	496,525
Trade and other receivables	10	76,505	-
Deferred tax asset	21	161,108	62,019
		<u>14,805,818</u>	<u>11,624,662</u>
Current assets			
Inventories	9	3,272,828	2,404,832
Taxes recoverable and prepayments	8	1,102,235	778,093
Trade and other receivables	10	844,942	659,752
Initial lease costs		96,067	82,564
Loans		133,111	111,317
Cash and cash equivalents	11	1,289,799	1,257,037
		<u>6,738,982</u>	<u>5,293,595</u>
Assets classified as held for sale		40,170	-
		<u>6,779,152</u>	<u>5,293,595</u>
Total assets		<u><u>21,584,970</u></u>	<u><u>16,918,257</u></u>
Equity and liabilities			
Equity attributable to equity holders of the Parent			
Share capital	12	860	600
Additional paid-in capital	12	4,119,422	3,473,447
Retained earnings		1,770,766	2,094,878
		<u>5,891,048</u>	<u>5,568,925</u>
Minority interest		3,430	4,431
Total equity		<u>5,894,478</u>	<u>5,573,356</u>
Non-current liabilities			
Bank loans	14	4,098,224	1,854,858
Bonds	13	3,000,000	3,000,000
Finance leases	15	353,962	161,419
Deferred tax liability	21	250,053	457,474
		<u>7,702,239</u>	<u>5,473,751</u>
Current liabilities			
Trade and other payables	16	5,719,936	4,432,813
Bank loans	14	1,236,026	434,329
Borrowings from ultimate shareholder and parties under common control	14	386,840	318,442
Current portion of Bonds	13	79,063	77,542
Finance leases	15	242,622	109,871
Advances from customers		87,540	78,889
Provisions for liabilities and charges	23	33,004	184,455
Tax liability, other than income taxes	17	125,420	113,692
Income taxes payable		77,802	121,117
		<u>7,988,253</u>	<u>5,871,150</u>
		<u>15,690,492</u>	<u>11,344,901</u>
Total equity and liabilities		<u><u>21,584,970</u></u>	<u><u>16,918,257</u></u>

Signed and authorized for release on behalf of the Board of Directors of OJSC Dixy Group on 24 April 2009

Ilya Yakubson,
President



Irina Kobayakina,
Head of IFRS Reporting



The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements

OJSC Dixy Group
Consolidated Income Statement

For the year ended 31 December 2008

(in thousands of Russian roubles, unless otherwise indicated)

	Notes	2008	2007
Revenue	18	48,325,088	36,651,629
Cost of sales		<u>(35,783,573)</u>	<u>(27,735,270)</u>
Gross profit		12,541,515	8,916,359
General and administrative expenses	19	<u>(11,026,117)</u>	<u>(7,724,642)</u>
Operating profit		1,515,398	1,191,717
Finance income	20	26,931	69,101
Finance costs	20	(579,682)	(528,747)
Foreign exchange (loss)/gain, net		(1,068,308)	31,191
Excess of net assets purchased in non-controlling subsidiaries over considerations paid	12	827	-
(Loss)/profit before income tax		(104,834)	763,262
Income tax expense	21	<u>(219,171)</u>	<u>(334,430)</u>
(Loss)/profit for the year		(324,005)	428,832
Attributable to:			
Equity holders of the Parent		(324,112)	429,069
Minority interests		107	(237)
		<u>(324,005)</u>	<u>428,832</u>
(Losses)/earnings per ordinary share attributable to the equity holders of the parent, basic and diluted (in Russian roubles per share)	22	(4.99)	7.80

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements

OJSC Dixy Group

Consolidated Statement of Cash Flows

For the year ended 31 December 2008

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2008	2007
Cash flows from operating activities:			
(Loss)/profit before income tax		(104,834)	763,262
Adjustments for:			
Depreciation of property, plant and equipment	5	1,016,863	686,502
Amortisation of intangible assets	7	65,930	58,423
Amortisation of initial lease costs	19	92,905	106,059
Gains less losses on disposals of property, plant and equipment and intangible assets		(19,809)	(1,100)
(Decrease)/increase in provision for impairment of taxes recoverable and prepayments	8	(554)	31,978
Increase in provision for impairment of trade and other receivables	10	16,201	9,787
Increase in provision for inventory obsolescence	9	56,231	22,459
Decrease in provision for liabilities and charges	23	(151,451)	(152,304)
Decrease in income tax provision	23	(29,293)	(31,348)
Finance costs	20	579,682	528,747
Interest income on loans given and cash deposits	20	(26,931)	(69,101)
Excess of net assets purchased in non-controlling subsidiaries over considerations paid	12	(827)	-
Provision for impairment of assets classified as held for sale	2.4	93,449	
Provision for impairment of assets associated with V-Mart segment	3	26,906	-
Unrealised foreign exchange loss/(gains) less losses on borrowings		1,068,308	(31,191)
Operating cash flows before working capital changes		2,682,776	1,922,173
Increase in trade and other receivables	10	(263,059)	(224,305)
Increase in inventories	9	(924,227)	(786,161)
(Increase)/decrease in taxes recoverable and prepayments	8	(147,594)	74,688
Increase in trade and other payables	16	1,288,027	1,358,494
Increase/(decrease) in tax liability other than income tax		11,730	(43,623)
Increase/(decrease) in advances from customers		8,651	(30,816)
Cash generated from operations		2,656,304	2,270,450
Income tax paid		(638,455)	(232,830)
Interest paid		(595,939)	(621,650)
Net cash from operating activities		1,421,910	1,415,970
Cash flows from investing activities:			
Purchase of property, plant and equipment	5	(3,858,729)	(3,043,900)
Proceeds from sale of property, plant and equipment		55,050	22,390
Purchase of non-controlling interest in subsidiary	12	(281)	-
Initial Lease costs paid		(9,226)	(46,065)
Purchases of businesses from parties under common control, net of cash acquired		-	(8,630)
Loans repaid		466,034	193,947
Disbursement of loans		(447,647)	(111,027)
Interest received		16,688	47,235
Purchases of intangible assets	7	(150,958)	(58,461)
Net cash used in investing activities		(3,929,069)	(3,004,511)

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements

OJSC Dixy Group

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(in thousands of Russian roubles, unless otherwise indicated)

	Note	2008	2007
Cash flows from financing activities:			
Proceeds from loans and borrowings	14	12,564,962	8,824,355
Repayment of loans and borrowings	14	(10,540,537)	(9,983,887)
Buy-out of shares	12	(709,384)	-
Proceeds from new issuance of shares	12	1,355,619	3,444,500
Proceeds from sale and leaseback transaction		91,186	-
Finance lease payments	15	(221,925)	(118,294)
Net cash from financing activities		<u>2,539,921</u>	<u>2,166,674</u>
Net increase in cash and cash equivalents		32,762	578,133
Cash and cash equivalents at the beginning of the year	11	<u>1,257,037</u>	678,904
Cash and cash equivalents at the end of the year	11	<u><u>1,289,799</u></u>	<u><u>1,257,037</u></u>

The following non-cash investing and financing activities were excluded from the above consolidated statement of cash flows for the year ended 31 December 2008:

- acquisition of property, plant and equipment of 361,033 (in 2007: 237,400) through finance lease.

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements

OJSC Dixy Group

Consolidated Statement of Changes in Equity (continued)

	Note	Attributable to equity holders of the Parent			Minority interest	Total equity	
		Share capital	Additional paid-in capital	Retained earnings			Total
At 1 January 2007		500	29,047	1,665,809	1,695,356	4,668	1,700,024
Profit for the year		-	-	429,069	429,069	(237)	428,832
Issuance of shares in connection with initial public offering	12	100	3,444,400	-	3,444,500	-	3,444,500
At 31 December 2007		600	3,473,447	2,094,878	5,568,925	4,431	5,573,356
Loss for the year		-	-	(324,112)	(324,112)	107	(324,005)
Issuance of shares in connection with secondary public offering	12	260	1,355,359	-	1,355,619	-	1,355,619
Buy-out of shares	12	-	(709,384)	-	(709,384)	-	(709,384)
Purchase of non-controlling interest in subsidiary	12	-	-	-	-	(1,108)	(1,108)
At 31 December 2008		860	4,119,422	1,770,766	5,891,048	3,430	5,894,478

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements

OJSC Dixy Group

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2008

1 Corporate Information

CJSC "Company Uniland Holding" (the "Company") was incorporated in January 2003 in Moscow, Russian Federation for the purpose of consolidation and reorganization of entities under common control. The Company initially was fully 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".

Since 24 May 2007 shares of OJSC Dixy Group are listed on the Russian Stock Exchange (refer to Note 12).

In January 2008 Closed Joint-Stock Company "Trade Company Megapolis" has acquired 100% of the ownership in Dixy Retail Limited (BVI), the owner of 100% stake in Dixy Holding Limited (Cyprus), which now holds 50.96% of shares in OJSC Dixy Group. CJSC "Trade Company Megapolis" is a part of the Mercury Group. Mercury Group is ultimately controlled by Mr. Igor Kesaev. In 2008 Mercury Group increased its stake in Dixy Group and controls as of 31 December 2008 61.09% of OJSC Dixy Group.

These consolidated financial statements of the Company were signed and authorized for release by the President and the Head of IFRS Reporting of OJSC Dixy Group on 24 April 2009.

2.1 Basis of Preparation

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

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

The functional currency of Group companies was determined on an entity by entity basis. In 2008 and 2007 the functional currency of all of the Group's operating companies was determined to be Russian Roubles.

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

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

2.1 Basis of Preparation (continued)

Statement of compliance

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

Basis of consolidation

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

Subsidiaries

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

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

Acquisition of subsidiaries

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

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

Purchases of controlling interests in subsidiaries from entities under common control

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

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

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

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

As at 31 December 2008 and 31 December 2007 the principal operating and holding consolidated subsidiaries of OJSC Dixy Group were:

Company	Country	Nature of operations	Ownership (%)	
			2008	2007
Timefield Trading & Investments Ltd	Cyprus	Financial company	100%	100%
Lexavart Holding Ltd	BVI	Holder of trademarks	100%	100%
CJSC Discount Centre	Russia	Retailing	100%	100%
CJSC DIXY Yug	Russia	Retailing	100%	100%
CJSC DIXY - Logistics	Russia	Transportation	100%	100%
CJSC Regionalnyje magaziny	Russia	Managing of Group's assets	100%	100%
CJSC Spayder Ekaterinburg	Russia	Managing of Group's assets	100%	100%
LLC Yaroslavskie magaziny	Russia	Retailing	100%	100%
LLC Denver	Russia	Retailing	100%	100%
LLC Stroyregioninvest	Russia	Real estate	100%	100%
LLC Interfinance	Russia	Retailing	100%	100%
LLC Kalitniki	Russia	Real estate	100%	100%
LLC Agat-26	Russia	Retailing	100%	100%
LLC Sever-13	Russia	Real estate	100%	100%
LLC D-Vostok	Russia	Retailing	100%	100%
LLC Kostromatorg	Russia	Real estate	100%	100%
LLC Kaluzhskie magaziny	Russia	Retailing	100%	100%
CJSC DIXY - St Petersburg	Russia	Retailing	100%	100%
CJSC Megamart - Severo-Zapad	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
LLC Severo-Zapad	Russia	Holding company	100%	100%
LLC Sankt-Petersburgkie magaziny	Russia	Managing of Group's assets in Saint-Petersburg	100%	100%
CJSC Megamart	Russia	Retailing	100%	100%
LLC SPb-Leasing	Russia	Real estate	100%	100%
LLC DIXY Chelyabinsk	Russia	Retailing	100%	100%
LLC Dixy-Snezhinsk	Russia	Real estate	100%	100%
OJSC YarTorgOdezhda	Russia	Retailing, Real estate	95.8%	94.4%
LLC Dixy Finance	Russia	Financing company	0%	0%

LLC Dixy Finance satisfied the criteria of SIC 12 "Consolidation - Special Purpose Entities" and accordingly consolidated in these financial statements (refer to Note 2.3).

Notes to the Consolidated Financial Statements (continued)

2.2 Changes in Accounting Policy and Disclosures

The accounting policies applied are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2007, except for the adoption of new Standards and Interpretation, noted below:

The Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2008. In addition, certain standards have been early adopted by the Group. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

- The Group elected to adopt early a revised IAS 23 Borrowing costs that was issued in March 2007. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group adopted this as a prospective change. No changes were made for borrowing costs incurred prior to this date that have been expensed. The Group believes it is impracticable to assess the effect on current and prior period financial position or performance of this change in accounting policy as if it has been retrospectively applied. During 2008, borrowing costs in the amount of 122,049 (2007: 130,903) have been capitalised.

- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an entity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

- IFRIC 12 - Service Concession Arrangements
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

- IFRIC 14 IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements (continued)

2.2 Changes in Accounting Policy and Disclosures (continued)

The Group has also early adopted the following Standards and Interpretations:

- IAS 32 Financial instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation.

The Group has elected to adopt the amendments to IAS 32 and IAS 1 as of 1 January 2008. The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

Reclassifications

Certain corresponding information, presented in the consolidated financial statements for the year ended 31 December 2007 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

2.3 Significant Accounting Judgments, Estimates and Assumptions

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

Judgements

Recognition of revenue for services rendered to vendors

Revenue from services provided to vendors generates significant portion of the Group income from operating activities. Because these service contracts are closely related to core purchase contracts it is often a matter of judgement to distinguish whether proceeds for services rendered should be recognised as revenue or whether they should be recognised as discounts provided, as a deduction from cost of goods purchased.

Buy-out of minority interests

In 2008 the Group bought out a 1.4% interest in subsidiary for a cash consideration. The Group's accounting policy is to treat transactions with minority interests as transactions with third parties, therefore excess of carrying amount of non-controlling interest purchase from minority shareholder over consideration paid was recognised in income statement (refer to Note 12).

Consolidation of a special purpose entity

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

Notes to the Consolidated Financial Statements (continued)

2.3 Significant Accounting Judgments, Estimates and Assumptions (continued)

Estimates and assumptions

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

Impairment of non-financial assets

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

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

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

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". In 2008, there were no change in estimates of useful lives of property, plant and equipment.

Fair values of assets and liabilities acquired in business combinations

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

Notes to the Consolidated Financial Statements (continued)

2.3 Significant Accounting Judgments, Estimates and Assumptions (continued)

Estimates and assumptions (continued)

Allowance for doubtful accounts

The Group maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers and contractors to make required payments or rendered services. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2008, allowances for doubtful accounts have been created in the amount of 57,840 (2007: 42,193).

Inventory provision

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

Litigations

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

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 23.

Notes to the Consolidated Financial Statements (continued)

2.3 Significant Accounting Judgments, Estimates and Assumptions (continued)

Estimates and assumptions (continued)

Deferred Tax Assets

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

2.4 Summary of Significant Accounting Policies

Property, plant and equipment

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

Depreciation is calculated using the straight-line basis over the useful life of the asset as follows:

	<u>Useful lives in years</u>
Buildings	30
Renovation of stores	5
Equipment	3 - 5

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

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

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

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

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.

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

	<u>Useful lives in years</u>
Software licenses	5 - 7
Favourable lease agreements - over the lease term	5 - 20

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

Capital advances

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

Initial lease costs

Initial lease costs 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. Initial lease costs are capitalised and charged to the income statement on a straight-line basis over a period of lease.

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.

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Income taxes (continued)

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.

Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

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

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

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial investments

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

Fair value

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

Amortised cost

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

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

Assets carried at amortised cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the income statement.

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

Available-for-sale financial investments

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

Trade and other receivables

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

Cash and cash equivalents

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

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment once classified as held for sale are not depreciated.

Non-current assets held for sale were measured at fair value less cost to sell, accordingly as of 31 December 2008 the Group recognised provision for impairment of the asset in the amount of 93,449 (2007: Nil).

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Share capital

Ordinary shares are classified as equity.

Additional paid-in capital

Additional paid in capital represents accumulated contributions made by shareholders and share premium for new shares issue transactions. Additional contributions of shareholders other than proceeds from issue of the Company's equity instruments are recorded at the fair value of the contributions received.

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends

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

Value added tax

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

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

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

Borrowings

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

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

Trade and other payables

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

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Provisions for liabilities and charges

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

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

Foreign currency translation

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

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

At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was US\$ 1 = RR 29.3804 (2007: US\$ 1 = RR 24.5462).

Employee benefits

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

Pension obligations

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

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

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

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.

Revenue recognition

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

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

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

Expense recognition

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

Advertising costs

Advertising costs are expensed when incurred.

Standards issued but not yet effective

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

Notes to the Consolidated Financial Statements (continued)

2.4 Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

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

- IFRS 8 "Operating Segments" (effective from January 1, 2009);
- IFRS 3 (revised) "Business Combinations" (effective from July 1, 2009);
- IAS 27 (revised) "Consolidated Financial Statements" (effective from July 1, 2009);
- Amendments to IFRS 2 "Share-based Payments" - Vesting Conditions and Cancellation (effective from January 1, 2009);
- IAS 1 (revised) "Presentation of Financial Statements" (effective from January 1, 2009);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Reclassification of Financial Assets (effective for financial years beginning on or after July 1, 2008);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible Hedged Items (effective from July 1, 2009);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from January 1, 2009);
- IFRIC 13 "Customer Loyalty Programs" (effective for financial years beginning on or after July 1, 2008);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for financial years beginning on or after October 1, 2008);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective from July 1, 2009);
- IFRIC 18 "Transfer of Assets from Customers" (effective from July 1, 2009);
- Amendments to standards following the 2007 "improvement to IFRSs" project.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

3 Segment Information

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

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

3. Segment Information (continued)

Business segments

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

- Retail - Dixy - representing retail sales through a chain of discounters, which are present in all three geographical areas of the presence of the Group;
- Retail - Megamart - representing retail sales through a chain of compact hypermarkets;
- 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 to traditional Dixy stores;
- Retail - V-Mart - represents retail sales through a chain of express stores and was presented in North-West region. They operated in a test format as a separate segment as they had a different customer class and differed by product assortment as compared to traditional Dixy stores. In the first quarter 2009, the Group decided to close all of its 12 V-Mart stores, located in St-Petersburg due to a decline in business perspective as a result of economic downturn. As of 31 December 2008 the Group accrued an impairment provision for assets related to V-Mart stores in the amount of 26,906 comprising 24,702 of impairment provision in respect of equipment and renovation of V-Mart stores, 1,171 of impairment provision in respect of initial lease costs and 1,033 in respect of other assets.

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

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

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

	Dixy	Megamart	Minimart	V-mart	Eliminations	Group
2008						
Sales - external	41,079,609	5,222,790	1,776,996	245,693	-	48,325,088
Total revenue	41,079,609	5,222,790	1,776,996	245,693	-	48,325,088
Segment result	1,540,136	312,972	197,055	(67,931)	-	1,982,232
Provision for impairment of assets classified as held for sales less income tax of nil	(93,449)	-	-	-	-	(93,449)
Provision for impairment of assets of associated with V-Mart segment (note 3)	-	-	-	(26,906)	-	(26,906)
Unallocated expenses						(346,479)
Operating profit						1,515,398
Finance income						26,931
Finance costs						(579,682)
Foreign exchange (loss)/gain, net						(1,068,308)
Excess of net assets purchased in non-controlling subsidiaries over considerations paid (note 12)						827

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

3 Segment Information (continued)

Business segments (continued)

	Dixy	Megamart	Minimart	V-mart	Eliminations	Group
Loss before income tax						(104,834)
Income tax expense						(219,171)
Loss for the year						(324,005)
Total segment assets	17,195,610	2,623,716	605,031	81,063	-	20,505,420
Deferred tax assets						161,108
Unallocated cash and cash equivalents						453,953
Other unallocated assets						464,489
Total assets						21,584,970
Total segment liabilities	4,973,784	658,361	225,449	33,930	-	5,891,524
Current and deferred tax liability						327,855
Bank Loans						5,334,250
Borrowings from ultimate shareholder and parties under common control						386,840
Bonds						3,079,063
Finance lease liabilities						596,584
Other unallocated liabilities						74,376
Total liabilities						15,690,492
Capital expenditure	4,195,034	688,453	110,385	1,482	-	4,995,354
Depreciation and amortisation	(947,651)	(103,193)	(24,140)	(7,809)	-	(1,082,793)
Other Non-cash expenses:						
Amortisation Initial Lease costs	(92,905)	-	-	-	-	(92,905)
Tax provision	151,451	-	-	-	-	151,451

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

3 Segment Information (continued)

Business segments (continued)

	Dixy	Megamart	Wholesale	Minimart	Eliminations	Group
2007						
Sales - external	32,150,527	3,243,937	1,184,979	72,186	-	36,651,629
Total revenue	32,150,527	3,243,937	1,184,979	72,186	-	36,651,629
Segment result	1,276,260	139,284	75,936	(292)	-	1,491,188
Unallocated expenses						(299,471)
Operating profit						1,191,717
Finance income						100,292
Finance costs						(559,938)
Foreign exchange (loss)/gain, net						31,191
Profit before income tax						763,262
Income tax expense						(334,430)
Profit for the year						428,832
Total segment assets	13,669,684	2,272,075	482,345	30,553	-	16,454,657
Deferred tax assets						62,019
Unallocated cash and cash equivalents						58,565
Other unallocated assets						343,016
Total assets						16,918,257
Total segment liabilities	4,111,892	458,296	170,663	11,481	-	4,752,332
Current and deferred tax liability						578,591
Bank Loans						2,289,187
Borrowings from ultimate shareholder and parties under common control						318,442
Bonds						3,077,542
Finance lease liabilities						271,290
Other unallocated liabilities						57,517
Total liabilities						11,344,901
Capital expenditure	2,935,914	796,031	-	4,220	-	3,736,165
Depreciation and amortisation	(662,792)	(67,169)	(14,059)	(905)	-	(744,925)
Other Non-cash expenses:						
Amortisation Initial Lease costs	(106,059)	-	-	-	-	(106,059)
Tax provision	152,304	-	-	-	-	152,304

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

3 Segment Information (continued)

Geographical segments

The Group's four business segments operate in three main geographical areas: Dixy-Retail segment operates in Central region (comprising Moscow and Moscow region, Yaroslavl 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. V-Mart segment operated only in North-West region.

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

	Central region	North-West region	Ural	Total
2008				
Total segment assets	12,766,193	3,975,969	3,763,258	20,505,420
External revenue	24,567,698	13,809,479	9,947,911	48,325,088
Capital expenditure	3,516,113	556,986	922,255	4,995,354
	Central region	North-West region	Ural	Total
2007				
Total segment assets	9,383,297	3,805,896	3,265,464	16,454,657
External revenue	19,958,812	9,621,318	7,071,499	36,651,629
Capital expenditure	1,992,239	859,092	884,834	3,736,165

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

4 Balances and Transactions with Related Parties

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

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

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

4 Balances and Transactions with Related Parties (continued)

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 2008 are detailed below. At 31 December 2008, the outstanding balances with related parties were as follows:

	Entities under common control	Key management personnel	Total
Gross amount of trade receivables	9,994	-	9,994
Gross amount of prepayments	4,671	-	4,671
Gross amount of other receivables	6,165	-	6,165
Gross amount of loans - current	87,318	5,574	92,892
Capital advances	207,981	-	207,981
Borrowings (refer to Note 14)	386,840	-	386,840
Trade and other payables	43,656	-	43,656

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2008, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2007: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The income and expense items with related parties for the year 2008 were as follows:

	Entities under common control	Key management personnel	Total
Interest income	6,702	218	6,920
Interest expense	7,627	-	7,627
Purchase of goods	530,236	-	530,236
Operating lease expenses	2,290	-	2,290

Transfers under finance arrangements (including loans and equity contributions in cash or in kind) for the year 2008 were as follows:

<i>In thousands of Russian Roubles</i>	Entities under common control	Key management personnel	Total
Loans	100,000	14,400	114,400
Repayment of loans issued	(100,000)	(9,000)	(109,000)
Proceeds from borrowings	-	-	-
Repayments of borrowings	(1,735)	-	(1,735)

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

4 Balances and Transactions with Related Parties (continued)

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

	<u>Entities under common control</u>	<u>Total</u>
Gross amount of trade receivables	9,147	9,147
Gross amount of other receivables	4,610	4,610
Gross amount of loans - current	72,837	72,837
Capital advances	153,077	153,077
Borrowings (refer to Note 14)	318,442	318,442
Trade and other payables	6,381	6,381

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

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

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

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

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. In 2007 the Group repaid the amount.

Directors' compensation

Compensation paid to eleven (2007: eight) 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 87,711 (2007: 63,640).

Loans obtained from parties under common control

At 31 December 2008 and 2007 the Group had several outstanding loans from Dixy Capital Investments Limited, which is under control of the Group's ultimate shareholder. These loans are payable on demand and denominated in US dollars. The interest rate on these loans is 11-11.5% (2007: 11-11.5%). No assets are pledged under these loans agreements.

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

4 Balances and Transactions with Related Parties (continued)

Loans issued to parties under common control

At 31 December 2008 and 2007 the Group had several loans issued to parties under common control of the Group's ultimate shareholder. These loans are payable in 2009 and are mainly denominated in US dollar. The interest rate on these loans is 11.5% (2007: 11-11.5%). These loans are not secured.

Purchase of goods

During 2008 the Group purchased goods for resale in the normal course of business in the amount of 530,236 from entities under control of its controlling shareholder Group Megapolis. The Group's controlling shareholder operates in the wholesale business specializing in distribution of tobacco goods.

5 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment in 2008 were as follows:

	Buildings	Renovation of stores	Equipment	Assets under construction and uninstalled equipment	Total
Cost					
At 31 December 2007	4,136,833	1,198,017	2,415,946	2,208,182	9,958,978
Additions	-	-	-	4,777,301	4,777,301
Transfers	4,403,376	677,068	1,393,903	(6,474,347)	-
Disposals	(3,895)	(34,925)	(45,788)	(24,066)	(108,674)
Impairment of assets associated with V-Mart segment (Note 3)	-	(18,154)	(11,227)	-	(29,381)
Reclassified to assets classified as held for sale	(128,290)	(24,279)	-	-	(152,569)
At 31 December 2008	8,408,024	1,797,727	3,752,834	487,070	14,445,655
Accumulated Depreciation					
At 31 December 2007	215,048	402,376	838,382	-	1,455,806
Depreciation charge	176,040	262,923	577,900	-	1,016,863
Disposals	(636)	(25,811)	(44,783)	-	(71,230)
Impairment of assets associated with V-Mart segment (Note 3)	-	(2,086)	(2,593)	-	(4,679)
Reclassified to assets classified as held for sale	(13,542)	(5,408)	-	-	(18,950)
At 31 December 2008	376,910	631,994	1,368,906	-	2,377,810
Net book value					
At 31 December 2008	8,031,114	1,165,733	2,383,928	487,070	12,067,845
At 31 December 2007	3,921,785	795,641	1,577,564	2,208,182	8,503,172

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

5 Property, Plant and Equipment (continued)

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

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

The carrying value of equipment and buildings held under finance lease contracts at 31 December 2008 was 558,409 (2007: 274,299) and 83,379 (2007: 147,043), respectively. Additions during 2008 include 361,033 (2007: 237,400) of equipment held under finance leases. The Group has no title for leased assets and the ownership rights for them transfer to the Group upon the maturity of finance lease contracts.

At 31 December 2008 buildings and equipment carried at 373,280 (2007: 539,696) have been pledged to third parties as collateral for borrowings (refer to Note 14).

During the year ended 31 December 2008 the Group capitalized interest of 122,049 (2007: 130,903). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was in the range of between 5.74-14.97% (refer to Note 2.2).

As of 31 December 2008 and 2007 there were no fully depreciated property, plant and equipment.

Notes to the Consolidated Financial Statements (continued)

6 Goodwill

There was no movement in goodwill in 2008 and 2007.

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:

	2008	2007
Retail stores located in Yaroslavl and Yaroslavl region (former LLC Planeta Management and its subsidiaries and YarTorgOdezhda)	165,523	165,523
Retail stores located in Ryazan and Ryazan region	217,252	217,252
Retail stores located in Kolomna	19,935	19,935
Retail stores located in Smolensk	1,893	1,893
	404,603	404,603

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

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

	2008	2007
Sales growth within five years	8.5%	9%
Gross margin	20-23%	20-23%
Growth rate beyond five years	8.5%	9%
Pre-tax discount rate	11% p.a.	12% p.a.

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

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

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Notes to the Consolidated Financial Statements (continued)

7 Other Intangible Assets

Movements in the carrying amount of intangible assets in 2008 were as follows:

	Software licenses	Favourable operating lease agreements	Total
Cost			
At 31 December 2007	75,051	684,992	760,043
Additions	6,059	144,899	150,958
Disposals	(742)	-	(742)
At 31 December 2008	<u>80,368</u>	<u>829,891</u>	<u>910,259</u>
Amortisation			
At 31 December 2007	8,358	108,924	117,282
Amortisation charge	10,001	55,929	65,930
Disposals	(386)	-	(386)
At 31 December 2008	<u>17,973</u>	<u>164,853</u>	<u>182,826</u>
Carrying amount			
At 31 December 2008	<u>62,395</u>	<u>665,038</u>	<u>727,433</u>
At 31 December 2007	<u>66,693</u>	<u>576,068</u>	<u>642,761</u>

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

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

Notes to the Consolidated Financial Statements (continued)

8 Taxes Recoverable and Prepayments

	<u>2008</u>	<u>2007</u>
VAT recoverable	452,678	439,488
Prepayments (net of allowance for impairments of 31,766 (2007:32,320))	436,681	277,344
Prepaid expenses	42,021	29,243
Taxes prepaid	63,748	22,756
Income tax prepaid	107,107	9,262
Total taxes recoverable and prepayments	<u>1,102,235</u>	<u>778,093</u>

9 Inventories

	<u>2008</u>	<u>2007</u>
Goods for resale	3,342,041	2,431,221
Raw materials and operating supplies	21,576	8,169
Less: net realizable value and goods shortage provision	(90,789)	(34,558)
Total inventories at the lower of cost or net realisable value	<u>3,272,828</u>	<u>2,404,832</u>

Inventory write-down due to shrinkages identified during the physical inventory counting in 2008 comprised 814,624 (2007: 343,652). No inventory is pledged as of 31 December 2008 and 2007.

10 Trade and Other Receivables

	<u>2008</u>	<u>2007</u>
Trade receivables (net of allowance for impairment of trade receivables of 22,043 (2007: 9,110))	762,751	455,231
Receivables for loan from CJSC Company Uniland Yekaterinburg sold to LLC Favorit	99,273	137,989
Other receivables (net of allowance for impairment of other receivables of 4,031 (2007: 763))	59,423	66,532
Total trade and other receivables	<u>921,447</u>	<u>659,752</u>
Less current portion	(844,942)	(659,752)
Non-current trade and other receivables	<u>76,505</u>	<u>-</u>

In 2007 the Group sold its loan from CJSC Company Uniland Yekaterinburg to LLC Favorit for carrying amount of 212,410. Out of this amount 74,421 was repaid till 31 December 2007 in accordance with payment schedule.

In June 2008 the Group changed its estimate of the recoverability period of this debt shown as at 31 December 2007 in the amount of 137,989 as current. The Group expects that the loan will be repaid in equal quarterly portions by the end of 2011. The debt was discounted to fair value at 9% using the effective interest method.

Trade receivables as of 31 December 2008 and 2007 are denominated mainly in Russian roubles.

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

10 Trade and Other Receivables (continued)

As at 31 December 2008, trade receivables at nominal value of 22,043 (2007: 9,110) were individually impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

At 1 January 2007	86
Change for the year	9,024
At 31 December 2007	9,110
Change for the year	12,933
At 31 December 2008	<u>22,043</u>

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

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods			
			Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2008	762,751	503,309	97,159	69,053	62,917	30,313
2007	455,231	277,107	87,792	32,493	55,853	1,986

Trade receivable as of 31 December 2008 and 2007 had different payment terms ranging from 5 to 60 days payment period with average payment period of 1 month. Because of different payment terms and significant number of debtors the Group concluded that it is impracticable to provide ageing analysis of trade receivables on individual basis. The Group prepared overdue ageing analysis based on average payment period of 1 month.

As at 31 December 2008, other receivables at nominal value of 4,031 (2007: 763) were impaired and fully provided for. Movements in the provision for impairment of other receivables were as follows:

At 1 January 2007	-
Change for the year	763
At 31 December 2007	763
Change for the year	3,268
At 31 December 2008	<u>4,031</u>

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

	Carrying amount	Of which neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods			
			Less than 60 days	between 61 and 150 days	between 151 and 330 days	More than 330 days
2008	59,423	30,203	2,595	1,032	1,421	24,172
2007	66,532	26,067	9,578	16,773	5,385	8,729

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

11 Cash and Cash Equivalents

	2008	2007
Cash on hand - Russian roubles	142,178	97,978
Russian rouble denominated bank balances due on demand (interest rate: 0.5% p.a.; 2007: 0.5% p.a.)	424,724	433,277
US\$ denominated bank balances due on demand (interest rate: 0.5% p.a.; 2007: 0.5% p.a.)	17,208	135
Russian rouble denominated time deposits (interest rate: 4,5-4,75 % p.a.; 2007: 3.25-3.50% p.a.)	187,138	233,415
US\$ denominated time deposits (interest rate: 0,05-0,12% p.a.; 2007: 0% p.a.)	228,580	-
Cash in transit - Russian roubles	289,971	492,232
	1,289,799	1,257,037

Time deposits have original maturities of less than one month.

12 Share Capital and Equity

Issued and additional paid-in capital

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

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

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

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

In November 2008 26,000,000 additional ordinary shares were placed as part of the offering, out of which 17,264,142 ordinary shares were placed with pre-emptive rights holders and 8,735,858 ordinary shares were placed under open subscription. Dixy Holding Limited kept its share in the Company by purchasing of 13,248,806 shares using its pre-emptive right. As a result of the secondary public offering the Group raised 1,355,359 net of associated transactions costs of 79,670.

In August and in October repurchased 968,197 ordinary shares for 355,484 (367 roubles per share) and 963,886 ordinary shares for 353,900 (367 roubles per share), respectively.

As at 31 December 2008 the Group had 86,000,000 (2007: 60,000,000) authorized ordinary shares of which 1,932,083 (2007: Nil) ordinary shares were held as treasury stock. All ordinary shares are fully paid.

Notes to the Consolidated Financial Statements (continued)

12 Share Capital and Equity (continued)**Dividends**

No dividends were paid in 2008 (2007: nil). No dividends were declared or paid subsequent to 31 December 2008 up to the date of authorisation of these financial statements for issue.

In accordance with Russian legislation, dividends may only be declared from accumulated undistributed and unreserved earnings as shown in Russian statutory financial statements. As of 31 December 2008 and 2007 the Company had 178,462 and 71,259 of accumulated loss, respectively. In addition, the Company's share in the undistributed and unreserved earnings of subsidiaries was approximately 883,732 as at 31 December 2007 (2007: 773,971).

Non-controlling interest

In December 2008 the Group bought out a 1.4% interest in LLC YarTorgOdezhda from its minority shareholders for a cash consideration of 281. The book value of the non-controlling interest bought out was 1,108. Excess of carrying amount of non-controlling interest purchase from minority shareholder over consideration paid was recognised in income statement.

13 Bonds

In March 2006 the Group issued 3,000,000 Russian rouble denominated bonds for a term of 5 years with a coupon period of 6 months. Bonds bear interest of 9.25% per annum. The only covenant of the bond placement is that the Company should retain control over its key operating companies, which account for more than 79% of consolidated revenues. As at 31 December 2008 the Group had accrued coupon of 79,063 (2007: 77,542).

14 Borrowings

	2008	2007
Term bank loans	5,334,250	2,289,187
Loan from entities under common control (Note 4)	386,840	318,442
Total borrowings	5,721,090	2,607,629

The Group's borrowings mature as follows:

	2008	2007
Borrowings due:		
- within 1 year	1,622,866	752,771
- between 2 and 5 years	4,098,224	1,854,858
Total borrowings	5,721,090	2,607,629

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

14 Borrowings (continued)

Terms and conditions in respect of borrowings are detailed below:

Source of financing	Maturity date	Currency	Interest rate 2008	Interest rate 2007	Collateral 2008	Collateral 2007	2008	2007
LLC HSBCBank	2010	RR	-	MOSPRIME+1 .85%	-	-	-	1,480,329
AK SberBank (OJSC)	2010	RR	-	10.0%	-	Buildings for 152,890	-	60,950
AB Gazprombank (CJSC)	2010	RR	15%	11.4%	Buildings for 373,280	Buildings for 386,806	359,446	515,461
AB Gazprombank (CJSC)	2009	RR	12%	-	-	-	494	-
AK SberBank (OJSC)	2008	RR	-	8-10%	-	-	-	200,007
AKB Chelindbank (OJSC)	2009	RR	10%	9%	-	-	29,634	28,973
Syndicated loan arranged by CITIBANK N.A.	2010	US\$	LIBOR+3,3%	-	-	-	3,980,142	-
UniCredit Bank	2009	US\$	LIBOR+4,25%	-	-	-	962,226	-
Loan from entities under common control (Note 4)	2009	US\$	11-11.5%	11-11.5%	-	-	386,840	318,442
Other	2009	RR	-	-	-	-	2,308	3,467
							5,721,090	2,607,629

Property, plant and equipment at carrying amount was pledged as collateral for borrowings of 373,280 (2007: 539,696) (refer to Note 5).

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

As at 31 December 2008 carrying amount of borrowings exceeded its fair value by 547,512 (2007: US\$ Nil) respectively primarily due to significant increase in interest rates and decrease in availability of financing as a result of financial crisis.

Following the change in ultimate controlling shareholder (refer to Note 1), HSBC Bank recalled for early repayment of outstanding debt with initial maturity in 2010 in the amount of 1,480,329.

In 2008 the Group received a syndicated loan arranged by Citibank N.A. in the amount of 3,980,142. Also in 2008 the Group obtain a loan from Unicredit bank in the amount of 962,226.

These loans impose restrictions on capital maintenance, which are summarised below:

- maximum Net Debt/EBITDA ratio of 3.5;
- minimum EBITDA/interest expense ratio of 3.5 before 31 December 2008 and 4.0 thereafter;
- minimum net assets of 200,000,000 US\$;

All borrowings were repaid in accordance with its maturities.

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

15 Finance Leases

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

	Due in 1 year	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2008	372,778	489,572	862,350
Less future finance charges	(130,156)	(135,610)	(265,766)
Present value of minimum lease payments at 31 December 2008	242,622	353,962	596,584
Minimum lease payments at 31 December 2007	167,733	188,918	356,651
Less future finance charges	(57,862)	(27,499)	(85,361)
Present value of minimum lease payments at 31 December 2007	109,871	161,419	271,290

The Group entered into finance leases for various items of buildings and equipment (Note 5). All leases have purchase options at the end of the lease terms. In the years ended 31 December 2008 and 2007 the average imputed return rate under lease contracts amounted to 18% and 26% respectively. Finance lease payables are stated in Russian roubles except for finance leases in the amount of 1,504 (2007: 3,138) denominated in US dollars and finance leases in the amount of 466,560 (2007: 149,543) denominated in Euro.

16 Trade and Other Payables

	2008	2007
Trade payables	5,242,575	4,160,376
Payables to employees	221,857	148,917
Other liabilities and accruals	255,504	123,520
Trade and other payables	5,719,936	4,432,813

As of 31 December 2008 and 2007 trade payables are denominated mainly in Russian roubles.

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

17 Tax liability, other than income taxes

	2008	2007
VAT payable	92,449	83,520
Payroll taxes payable	32,971	30,172
Tax liability, other than income taxes	125,420	113,692

18 Revenue

	2008	2007
Sales of goods	47,825,154	36,272,812
Sublease income	286,972	195,125
Marketing revenue	212,962	183,692
Total revenue	48,325,088	36,651,629

OJSC Dixy Group

Notes to the Consolidated Financial Statements (continued)

19 General and Administrative Expenses

	Note	2008	2007
Staff costs		4,905,469	3,687,454
Operating lease expenses		1,777,573	1,325,182
Depreciation of property, plant and equipment and amortisation and impairment of intangible assets	5,7	1,082,793	744,925
Shrinkage of inventories		814,624	343,652
Utilities		440,848	275,876
Repair and maintenance costs		376,599	258,860
Transportation and handling costs		299,266	185,128
Supplies and materials		249,712	254,671
Bank charges		220,276	76,014
Advertising costs		156,157	111,848
Taxes other than income tax		155,218	86,651
Information, consulting and other services		115,082	98,583
Security services		106,958	81,422
Provision for impairment of assets classified as held for sale	2.4	93,449	-
Amortisation of initial lease costs		92,905	106,059
Telecommunication expenses		76,170	57,991
Increase in inventory allowance	9	56,231	22,459
Business related expenses		27,048	15,118
Provision for impairment of assets associated with V-Mart segment	3	26,906	-
Increase in provision for impairment of trade and other receivables	10	16,201	9,787
(Decrease)/increase in provision for impairment of prepayments	8	(554)	31,978
Other operating income		(62,814)	(49,016)
Total general and administrative expenses		11,026,117	7,724,642

Included in staff costs are statutory social security and pension contributions (unified social tax) of 891,566 (2007: 666,624).

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

Included in other operating expenses is a change in provisions for liabilities and charges in the amount of positive 151,451 (2007: 152,304) (refer to Note 23).

20 Finance Income and Finance Costs

	Note	2008	2007
Interest income from third parties		20,011	58,460
Interest income from related parties	4	6,920	10,641
Total finance income		26,931	69,101
	Note	2008	2007
Interest expense from third parties	14	572,055	501,747
Interest expense from related parties	4	7,627	27,000
Total finance costs		579,682	528,747

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Notes to the Consolidated Financial Statements (continued)

21 Income Taxes

In November 2008, a reduction of the income tax rate from 24% to 20% was announced by the Russian government. The new rate is effective from 1 January 2009. As such, the respective deferred tax assets and liabilities were measured using the announced tax rate.

Income tax expense comprises the following:

	2008	2007
Current tax	525,681	272,747
Deferred tax	(306,510)	61,683
Income tax expense for the year	219,171	334,430

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

	2008	2007
(Loss)/profit before income tax	(104,834)	763,262
Theoretical tax (benefit)/charge at statutory rate of 24% (2007: 24%)	(25,160)	183,183
Tax effect of items which are not deductible or assessable for taxation purposes:		
Change of adjustment for deferred tax asset assessment	(29,385)	4,899
Shrinkage of inventories	195,510	82,476
Effect of change in income tax rate from 24% to 20%	(17,789)	-
Non-deductible expenses	95,995	63,872
Income tax expense for the year	219,171	334,430

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

	2008	2007
Deferred tax assets	308,769	41,111
Property, plant and equipment	27,421	16,872
Accounts payable	29,829	16,412
Tax losses carried forward	231,897	33,790
Less: adjustment to deferred tax asset assessment	-	(29,385)
Inventories	19,622	3,422
Deferred tax liabilities	(397,714)	(436,566)
Property, plant and equipment	(366,565)	(417,211)
Accounts payable	(21,996)	(9,434)
Inventories	(9,153)	(9,921)
Net deferred tax liability	(88,945)	(395,455)

Notes to the Consolidated Financial Statements (continued)

21 Income Taxes (continued)

Reflected in the consolidated balance sheet as follows:

	2008	2007
Total Deferred tax assets	161,108	62,019
Total Deferred tax liabilities	(250,053)	(457,474)
Net deferred tax liability	(88,945)	(395,455)

Weighted average income tax rate is set at 24% (2007: 24%); it is based on the income tax rates at the Group Companies' jurisdictions. In 2008 and 2007 there were no significant income or loss generated in the companies outside of Russian Federation.

Deferred tax assets and liabilities are calculated for all temporary differences under the liability method using the principal tax rate of 20% (2007: 24%). Deferred tax assets and liabilities at 31 December 2008 and 2007 were attributable to the following:

	31 December 2007	Credited / (charged) to profit or loss	31 December 2008
Tax effect of deductible / (taxable) temporary differences and tax losses carried forward			
Accounts payable	6,978	855	7,833
Tax losses carried forward	33,790	198,107	231,897
Property, plant and equipment, and Other intangible assets	(400,339)	61,195	(339,144)
Inventories	(6,499)	16,968	10,469
Less: adjustment to deferred tax asset assessment	(29,385)	29,385	-
Net deferred tax liability	(395,455)	306,510	(88,945)

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

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.

The previously unrecognised losses carry forward of 122,438 were used to reduce current income taxes in 2008.

Notes to the Consolidated Financial Statements (continued)

21 Income Taxes (continued)

Tax loss carry forwards recognised by the Group as of 31 December 2008 expire in 2018. Tax loss carry forward as of 31 December 2008 arose mainly due to rapid Russian rouble devaluation in forth quarter 2008. The Group believes that the tax loss is fully recoverable before expiry date because tax loss carry forward have arisen on entities, whose primary source of income are intragroup charges and interest income, which are under control of the Group.

The Group has not recognised a deferred tax liability in respect of taxable temporary differences of 3,174,294 (2007: 2,864,397) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

22 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.

In August and October 2008 the Group repurchased 968,197 and 963,886 ordinary shares, respectively (refer to Note 12).

In October 2008 the Group issued 26,000,000 additional ordinary shares (refer to Note 12).

Earnings per share are calculated as follows:

	Note	2008	2007
(Loss)/profit for the year attributable to ordinary shareholders		(324,112)	429,069
Weighted average number of ordinary shares in issue	12	64,905,121	55,000,000
Basic and diluted (losses)/earnings per ordinary share (expressed in Russian rouble per share)		(4.99)	7.80

Notes to the Consolidated Financial Statements (continued)

23 Contingencies, Commitments and Operating Risks

Operating environment of the group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

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 2008 the Group had contractual capital expenditure commitments in respect of property, plant and equipment amounted to 170,671 (2007: 1,086,822).

Operating lease commitments

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

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Notes to the Consolidated Financial Statements (continued)

23 Contingencies, Commitments and Operating Risks (continued)

Operating lease commitments (continued)

Future minimum rental payments under non-cancelable operating leases as at 31 December were as follows:

	<u>2008</u>	<u>2007</u>
Committed to pay		
- within 1 year	1,085,024	780,397
- between 2 and 5 years	2,776,300	2,060,672
- more than 5 years	887,700	657,841
Total non-cancellable operating lease liabilities	<u><u>4,749,024</u></u>	<u><u>3,498,910</u></u>

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.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

Notes to the Consolidated Financial Statements (continued)

23 Contingencies, Commitments and Operating Risks (continued)

Tax legislation (continued)

In the year ended 31 December 2006 the Group entered into arrangements with third parties and engaged in other arrangements, which resulted in tax benefits to the Group. Use of such arrangements and practices substantially ceased by the end of the 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.

During 2007 the Group released a tax provision related to taxes other than income by 167,080 and income tax liabilities by 60,871. The Group accrued additional tax provision for unsustainable tax position related to taxes other than income of 14,776 and an income tax liability of 29,523.

As of 31 December 2007 provision for income tax liabilities and provision for taxes other than income comprised 44,127 and 184,455, respectively. 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 2007 are expected to be either utilized or released within three years.

During 2008 the Group released a tax provision related to taxes other than income by 156,198 and income tax liability by 37,437, which are no longer probable to result in additional tax liabilities due to limitation period or tax inspections. The Group accrued additional tax provision for unsustainable tax position related to taxes other than income of 4,747 and income tax liability of 8,144.

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 2008 of potential liabilities that have not been provided for because management believes they are less than probable, amounts to 362,180 (2007: 166,293).

24 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.

Notes to the Consolidated Financial Statements (continued)

24 Financial Risk Management (continued)**Market risk**

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

Foreign exchange risk

Foreign currency denominated assets (refer to Note 11) and liabilities (refer to Notes 14, 15) give rise to foreign exchange exposure. In order to reduce foreign exchange exposure and hedge associated risks, in third quarter 2008 the Group concluded a number of agreements with financial institutions to gain access to derivatives market, where hedging instruments are traded. Upon analysis of the derivatives market, the Group was unable to find appropriate instruments to hedge its foreign risks mainly due to unavailability on the market hedging instruments with long maturity. The Group continues to monitor the situation and considers all available hedging opportunities and instruments that are appropriate for hedging Group's foreign exchange risks. In 2008 the Group did not enter into any derivative transactions either directly or through financial institutions.

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

	<u>Increase/decrease in exchange rate</u>	<u>Effect on profit before tax</u>
2008		
US\$	-14%	(734,075)
EUR	-32%	(1,677,886)
US\$	-1%	(4,666)
EUR	-18%	(83,981)
2007		
US\$	+7%	(17,403)
EUR	+4%	(5,982)
US\$	-7%	17,403
EUR	-4%	5,982

Interest rate risk

The Group's exposure to the risk of changes in market interest rates related to the Group's long-term bank loan with floating interest rate (refer to Note 14).

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Notes to the Consolidated Financial Statements (continued)

24 Financial Risk Management (continued)

Interest rate risk (continued)

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

	31 December 2008		31 December 2007	
	Increase/decrease in basis points	Effect on profit before tax	Increase/decrease in basis points	Effect on profit before tax
MOSPRIME	-	-	2.00	(29,193)
	-	-	-2.00	29,193
LIBOR	0.55	(27,183)	-	-
	-0.55	27,183	-	-

Liquidity risk

As at 31 December 2008 the Group's current liabilities exceeded the Group's current assets by 1,209,101 (2007: 577,555). Typically the reason for negative working capital is the suppliers' credit being greater than the inventory turnover, generally 1.5 - 2 times. Short credit lines cover any temporary deficit and are refinanced when required.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities as at 31 December 2008 is 100,000 (2007: 669,296) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 based on contractual undiscounted payments.

Year ended 31 December 2008	On demand or less than 1 year	1 to 5 years	Total
Bank loans	1,467,673	4,232,352	5,700,025
Borrowings from ultimate shareholder and parties under common control	386,840	-	386,840
Bonds	276,720	3,415,080	3,691,800
Finance lease liability	372,778	489,572	862,350
Trade and other payables	5,719,936	-	5,719,936
	8,223,947	8,137,004	16,360,951

Year ended 31 December 2007	On demand or less than 1 year	1 to 5 years	Total
Bank loans	633,454	2,129,989	2,763,443
Borrowings from ultimate shareholder and parties under common control	318,442	-	318,442
Bonds	276,720	3,691,800	3,968,520
Finance lease liability	167,733	188,918	356,651
Trade and other payables	4,432,813	-	4,432,813
	5,829,162	6,010,707	11,839,869

Notes to the Consolidated Financial Statements (continued)

24 Financial Risk Management (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it continues efforts to reduce cost of capital and maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group's policy is to keep the Net Debt/EBITDA ratio between 2 and 3,5. The Group includes within net debt, interest bearing loans and borrowings, finance lease liabilities, less cash and cash equivalents, excluding discontinued operations. EBITDA is calculated as operating profit excluding depreciation of property, plant and equipment, amortization of intangible assets and dividends received.

	31 December 2008	31 December 2007
Bank Loans	5,334,250	2,289,187
Borrowings from ultimate shareholder and parties under common control	386,840	318,442
Bonds	3,079,063	3,077,542
Finance lease liabilities	596,584	271,290
Less cash and cash equivalents	(1,289,799)	(1,257,037)
Net Debt	8,106,938	4,699,424
Operating profit	1,515,398	1,191,717
Depreciation of property, plant and equipment	1,016,863	686,502
Amortisation of intangible assets	65,930	58,423
Amortisation of initial lease costs	92,905	106,059
Provision for impairment of assets classified as held for sale	93,449	-
Provision for impairment of assets associated with V- Mart segment	26,906	-
EBITDA	2,811,451	2,042,701
Net Debt/EBITDA	2.9	2.3

Simultaneously, the Group maintains optimal capital structure by tracing certain capital requirements based on ratios. The ratios are maximum level of Debt/EBITDA, minimum level of EBITDA/Interest expense, minimum level of Net assets. These ratios are included as covenants into loan agreements (Note 14). The Group is in compliance with externally imposed capital requirements.

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Notes to the Consolidated Financial Statements (continued)

24 Financial Risk Management (continued)

Fair value of financial instruments

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

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Loans	150,987	150,987	114,493	114,493
Trade receivables	762,751	762,751	455,231	455,231
Other receivables	158,696	158,696	204,521	204,521
Cash and cash equivalent	1,289,799	1,289,799	1,257,037	1,257,037
Liabilities				
Bank loans	(5,334,250)	(4,786,738)	(2,289,187)	(2,289,187)
Borrowings from ultimate shareholder and parties under common control	(386,840)	(386,840)	(318,442)	(318,442)
Bonds	(3,079,063)	(2,045,400)	(3,077,542)	(2,822,542)
Finance lease liability	(596,584)	(596,584)	(271,290)	(271,290)
Trade and other payables	(5,719,936)	(5,719,936)	4,432,813	4,432,813

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

25 Events After the Balance Sheet Date

In the beginning of 2009 the Russian Ruble has experienced a significant devaluation against US Dollar. At the date these consolidated financial statements have been authorized for issue, the official exchange rate of the Russian Ruble to US Dollar as set by the Central Bank of Russia comprised US\$ 1 = 33,78 RUR, which constitutes a 15% reduction in the value of the Russian Ruble to the US Dollar since 31 December 2008.