

**Open Joint-Stock Company
Torgoviy Dom Kopeyka**

Consolidated Financial Statements

*Year ended December 31, 2008
with Report of Independent Auditor*

Open Joint-Stock Company
Torgoviy Dom Kopeyka

Consolidated Financial Statements

Year ended December 31, 2008

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Independent Auditors' Report

To the shareholders of OAO TD Kopeyka

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

29 May 2009
Moscow, Russia

OJSC TD Kopeyka
Consolidated Balance Sheet
Year ended December 31, 2008
(thousand of Russian Roubles)

	Notes	December 31, 2008	December 31, 2007
Assets			
Non-current assets			
Property and equipment	14	7,836,619	7,420,070
Investment property	15	1,272,865	-
Intangible assets	16	2,426,455	2,191,661
Long term loans	17	748,342	2,280,166
Other non-current assets	18	63,148	75,681
Deferred income tax asset	31	453,680	126,397
		<u>12,801,109</u>	<u>12,093,975</u>
Current assets			
Inventories	9	2,857,692	2,194,086
Trade receivables	10	2,167,445	2,285,647
Short term loans	32	55,418	678,027
Advances paid	11	525,520	1,026,602
Taxes receivable	12	901,499	820,412
Other current assets	13	422,700	1,168,136
Cash and cash equivalents	8	488,692	766,726
		<u>7,418,966</u>	<u>8,939,636</u>
Total assets		<u><u>20,220,075</u></u>	<u><u>21,033,611</u></u>
Liabilities and equity			
Equity			
Share capital	23	2,725,146	2,725,146
Retained earnings		(644,072)	866,774
		<u>2,081,074</u>	<u>3,591,920</u>
Non-current liabilities			
Long term debt	21	3,689,075	4,021,904
Other non-current liabilities		-	7,415
Deferred income tax liability	31	65,658	267,967
		<u>3,754,733</u>	<u>4,297,286</u>
Current liabilities			
Trade payables	19	6,592,411	5,309,931
Short term debt	21	5,304,886	7,271,255
Taxes payable	20	509,935	237,694
Dividends payable	24	539	539
Other current liabilities	22	1,976,497	324,986
		<u>14,384,268</u>	<u>13,144,405</u>
Total liabilities and equity		<u><u>20,220,075</u></u>	<u><u>21,033,611</u></u>

S. E. Solodov, General Director of the Company
29 May 2009

A. D. Tarasov, Chief Financial Officer
29 May 2009

The accompanying notes are an integral part of these financial statements.

OJSC TD Kopeyka
Consolidated Income Statement
Year ended December 31, 2008
(thousand of Russian Roubles)

	Notes	2008	2007
Revenues			
Retail revenues - own stores		35,444,503	27,848,822
Retail and wholesale revenues with franchised stores		11,019,322	6,771,416
Other revenues	25	566,793	316,291
Total revenues		47,030,618	34,936,529
Cost of goods sold	26	(35,911,083)	(27,376,674)
Gross profit		11,119,535	7,559,855
Selling, general and administrative expenses incl. depreciation, amortization and impairment (2008: 811,264, 2007: 742,914)	27	(9,661,375)	(6,821,832)
Pre-opening costs	28	(23,702)	(96,186)
Other operating income, net incl. change in fair value of investment property (2008: 140,613, 2007: -)	29	669,657	38,719
	15		
Profit from operating activities		2,104,115	680,555
Provision for loans issued and investment advances paid to related parties	32	(3,184,711)	-
Foreign exchange gain/(loss), net		30,423	(27,696)
Financial income	30	397,192	52,927
Financial expense	30	(1,110,780)	(862,507)
Loss before income taxes		(1,763,761)	(156,720)
Income tax benefit/(expense)	31	252,915	(213,648)
Loss for the period from continuing operations		(1,510,846)	(370,368)
Discontinued operations			
Profit from discontinued operations		-	249,869
Net loss		(1,510,846)	(120,499)

The accompanying notes are an integral part of these financial statements.

OJSC TD Kopeyka
 Consolidated Statement of Changes in Equity
 Year ended December 31, 2008
 (thousand of Russian Roubles)

	Share capital	Retained earnings	Total
At January 1, 2007	2,725,146	987,273	3,712,419
Net loss 2007	–	(120,499)	(120,499)
At December 31, 2007	2,725,146	866,774	3,591,920
Net loss 2008	–	(1,510,846)	(1,510,846)
At December 31, 2008	2,725,146	(644,072)	2,081,074

The accompanying notes are an integral part of these financial statements.

OJSC TD Kopeyka
Consolidated Statement of Cash Flows
Year ended December 31, 2008
(thousand of Russian Roubles)

	Notes	2008	2007
Cash flows from operating activities			
Loss before tax from continuing operations		(1,763,761)	(156,720)
Profit before tax from discontinued operations		–	384,031
Adjustments for:			
Interest income	30	(397,192)	(54,461)
Interest expense	30	1,110,780	1,000,990
Movement in inventory allowance	9	(23,044)	507,876
Depreciation, amortization and impairment		811,264	898,508
Other Income and expense, net	29	(669,657)	(48,440)
Gain on disposal group		–	(1,568,966)
Change of provisions for loans issued and investments advances paid to related parties	32	3,184,711	–
Other		(78,419)	–
(Gain)/loss from changes in foreign exchange rate		(30,423)	27,708
Operating cash flows before working capital changes		2,144,259	990,526
Increase in trade receivable and advances paid		609,966	(1,650,624)
Increase in inventories		(640,562)	(968,193)
(Increase)/Decrease in taxes receivable		(81,087)	24,542
(Increase)/Decrease in other assets		1,884	(1,149,265)
Increase in trade and other accounts payable		2,083,716	4,625,830
Increase in taxes payable, other than income tax		316,031	165,945
Cash generated from operations		4,434,207	2,038,761
Income taxes paid		(372,658)	(52,111)
Net cash flows generated from operating activities		4,061,549	1,986,650
Cash flows from investing activities			
Purchases of property and equipment		(1,512,751)	(2,236,075)
Proceeds from the sale of property and equipment		1,511,088	196,752
Purchases of intangible assets		(140,027)	(31,719)
Purchase of investment property		(177,200)	–
Advance on acquisition of subsidiary		–	(751,340)
Disposal of subsidiaries, net of cash disposed of		–	(176,917)
Business acquisition	6	50	(20)
Loans granted		(742,297)	(1,131,867)
Interest received		165,462	49,470
Net cash used in investing activities		(895,675)	(4,081,716)
Cash flows from financing activities			
Proceeds from short term borrowings		15,011,104	1,959,117
Repayment of bonds		(1,512,970)	3,999,240
Repayment of short term borrowings		(15,669,340)	(2,805,705)
Transactions costs		(163,324)	–
Interest paid		(1,109,378)	(949,116)
Net cash (used) provided by financing activities		(3,443,908)	2,203,536
Net increase/(decrease) in cash and cash equivalents		(278,034)	108,470
Cash and cash equivalents at the beginning of the period		766,726	658,256
Cash and cash equivalents at the end of the period	8	488,692	766,726

The accompanying notes are an integral part of these financial statements.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements

Year ended December 31, 2008

(thousand of Russian Roubles)

1. Description of Business

OJSC TD Kopeyka (further referred to as the "Company", or, together with its subsidiaries, the "Group") is an open joint stock company incorporated in the Russian Federation on November 9, 2005. It is the legal successor of LLC TD Kopeyka, incorporated on May 16, 2002. The consolidated financial statements of the Company for the year ended December 31, 2008 were authorized for issue by the General Director of the Company on May 29, 2009.

The Group's principal activity is food and consumer goods retailing. In 2008, the Group continued to run business operations in Moscow, the Moscow region, the surrounding regions of the Central Part of Russia and in Volga Region. In December 2007, the Group disposed of its operations in Samara, Vladimir, Voronezh and Yaroslavl regions.

As of December 31, 2008, the Group operated a total of 517 stores (2007: 437 stores), including 307 own stores (2007: 261 own stores) and 210 franchised stores (2007: 176 franchised stores). Franchised stores of the Group were represented by agent stores where agents were selling goods belonging to the Group for sales commission (2008: 104 stores; 2007: 93 stores) and stores where goods were purchased from the Group and sold as own (2008: 106 stores; 2007: 83 stores).

As of December 31, 2008, the Group employed 9,297 employees (2007: 8,183). The head office of the Company is located at Petrovsko-Razumovsky proezd, 28, Moscow, Russia.

In January 2008, the Group acquired a 97% interest in-LLC NK Proviant, the remaining 3% were acquired in March 2008.

The Group is ultimately controlled by Mr. N.A. Tsvetkov

2. Basis of Preparation of the Financial Statements

2.1 Statement of Compliance

These consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2 Basis of Accounting

Group companies maintain their accounting records in Russian Roubles (RR) and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The principal adjustments relate to consolidation, accounting for business combinations, valuation of property, equipment and recognition and measurement of investment property, bad debt allowances and use of fair value.

The consolidated financial statements have been prepared under the historical cost convention, except for assets and liabilities acquired in a business combination and investment property.

The consolidated financial statements are presented in RR, and all values are rounded to the nearest thousand (RR 000), unless otherwise indicated.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

2. Basis of Preparation of the Financial Statements (continued)

2.3 Functional Currency

Based on the economic substance of the underlying events and circumstances relevant to the Group, the functional currency of the Group has been determined to be the Russian Rouble, which is the national currency of the Russian Federation.

2.4 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are entered in the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

2.5 Basis of Consolidation

The consolidated financial statements comprise the financial statements of OJSC TD KOPEYKA and its subsidiaries drawn up to December 31, 2008 after elimination of all inter-company transactions.

Business entity	Activity	Share of control (%) as of December 31,	
		2008	2007
OJSC TD KOPEYKA	Management Company	N/A	N/A
LLC Kopeyka Import	Buyer of imported inventory	100	100
LLC Kopeyka Moscow	Retail operator Moscow	100	100
LLC Kopeyka Development	Property management	100	100
LLC NK Proviant	Property management	100	–
OJSC Victorya-18	Retail operator	100	100
LLC Kopeyka Moscow Region	Retail operator	100	100
LLC Kopeyka Tula	Retail operator	100	100
LLC Kopeyka Kaluga	Retail operator	100	100
LLC Kopeyka Riasan	Retail operator	100	100
LLC Kopeyka Tver	Retail operator	100	100
LLC Trade Firm Makedonia	Retail operator	100	100
CJSC Private security guard enterprise Gudvill-Garant	Security guard enterprise	100	100
LLC Kopeyka-Samara	Dormant	–	100
LLC Kopeyka Development Samara	Dormant	–	100
Kopeyka Retail Limited	Dormant	100	–
LLC Kopeyka-Finans	Dormant	–	100

On January 03, 2008, the Group acquired a 97% interest in LLC NK Proviant located in Nizhny Novgorod, Russia. The remaining 3% were acquired on March 1, 2008.

The financial statements of all subsidiaries are prepared for the same reporting period as the financial statements of the parent company based on unified accounting policies. All intra-group balances, transactions, income, expenses, and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

3. Changes in Accounting Policies

3.1 Adopted New or Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended IFRS and IFRIC interpretations as of January 1, 2008.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The Group has adopted IFRIC Interpretation 11 in so far as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Group has not issued instruments covered by this interpretation.

IFRIC 12 – Service Concession Arrangements

The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 provides guidance on how to assess the limit to the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 1 Employee Benefits. The Group amended its accounting policy accordingly. The Group has no defined benefit schemes; therefore, the adoption of this interpretation had no impact on the financial position or performance of the Group.

3.2 IFRSs and IFRIC Interpretations not yet Effective

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

- IFRS 2 Share-based Payment (Revised) effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements effective 1 January 2009
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements effective 1 July 2009
- IAS 1 Revised Presentation of Financial Statements effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

3. Changes in Accounting Policies (continued)

3.2 IFRSs and IFRIC Interpretations not yet Effective (continued)

The Group will apply the above standards when they are effective and assess that they have no material impact on its consolidated financial statements.

The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

IFRS 7 Financial Instruments: Disclosures:

Removal of the reference to 'total interest income' as a component of finance costs.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:

Clarification that only implementation guidance, an integral part of an IFRS, is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period:

Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, Plant and Equipment:

Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale.

IAS 18 Revenue:

Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

IAS 19 Employee Benefits:

Revises the definition of 'past service costs', 'return on plan assets' and 'short-term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction of benefits related to future services are accounted for as curtailment. Deletes the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:

Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant. Also, revises various terms used consistent with other IFRS.

IAS 27 Consolidated and Separate Financial Statements:

When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

IAS 29 Financial Reporting in Hyperinflationary Economies:

Revises the reference to the exception to measure assets and liabilities at historical cost so that it notes property, plant and equipment as being an example rather than implying that it is a definitive list. Also, revises various terms used consistent with other IFRS.

IAS 34 Interim Financial Reporting:

Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.

Notes to Consolidated Financial Statements (continued)

3. Changes in Accounting Policies (continued)

3.2 IFRSs and IFRIC Interpretations not yet Effective (continued)

IAS 39 Financial Instruments: Recognition and Measurement:

The changes in the circumstances relating to derivatives are not reclassifications and therefore may be either removed from or included in the 'fair value through profit or loss' classification after initial recognition. Removes the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Requires the use of the revised effective interest rate when re-measuring a debt instrument on the cessation of fair value hedge accounting.

IAS 40 Investment Property:

Revises the scope so that the property under construction or development for future use as investment property is classified as investment property. If fair value cannot be reliably determined, investment property under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revises the conditions for a voluntary change in accounting policy consistent with IAS 8 and clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IAS 41 Agriculture:

Removes the reference to the use of a pre-tax discount rate to determine fair value. Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaces the term 'point-of-sale costs' with 'costs to sell'.

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for fiscal years beginning on or after January 1, 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on a consolidated financial statement because the Group does not conduct such activity.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for fiscal years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on accounting for a hedge of a net investment. As such, it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment, and on how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

4. Significant Accounting Judgments and Estimates

4.1 Significant Accounting Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Notes to Consolidated Financial Statements (continued)

4. Significant Accounting Judgments and Estimates (continued)

Classification of Lease Agreements

A lease is classified as finance lease if it substantially transfers all the risks and rewards incidental to ownership, otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of a transaction rather than on the form of a contract. If the lease term is longer than 75 percent of the economic life of an asset, or at the inception of a lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless clearly shown otherwise.

4.2 Significant Accounting Estimates

The key assumptions concerning future and other key sources of uncertainty of estimation 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 fiscal year are discussed below.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units or groups of units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units or groups of units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are explained further in Note 16.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. 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 by management. As a result, tax authorities may challenge transactions, and the Group's entities may be charged with 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. As of December 31, 2008, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 31.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised 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 jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including previous operating results, the operational plan, the expiration of tax losses carried forward, and tax planning strategies. If actual results differ from the estimates or if the estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be adversely affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, the reduction is recognised in profit or loss.

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Notes to Consolidated Financial Statements (continued)

4. Significant Accounting Judgments and Estimates (continued)

4.2 Significant Accounting Estimates (continued)

Fair Values of Assets and Liabilities Acquired in a Business Combination

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values (Note 6), which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of non-financial assets (other than goodwill)

The Group is required to reduce the carrying amount of property and equipment to the recoverable amount in case of any indication of impairment exists. The recoverable amounts of buildings and leasehold improvements for which such indication existed at the reporting date represent the value in use as determined by discounting the future cash flows generated from the continued use of the respective stores. The key assumptions used in determining the recoverable amounts of the respective leasehold improvements require considerable judgment in forecasting future cash flows and estimating the discount rate. The key assumptions used to determine the recoverable amount for different cash generating units, including a sensitivity analysis, are explained further in Note 14.

Useful Life of Property and Equipment

The Group assesses the remaining useful lives of items of property and equipment at least every fiscal year-end. 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". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in profit or loss.

Inventory Provision

The group provides for estimated physical losses of inventory on the basis of historical data as a percentage of sales (Note 9). This provision is adjusted at the end of each reporting period to reflect the historical trend of results of the actual physical inventory count.

Bad debt provision

The Group provides for doubtful trade receivables based on an assessment of the likelihood of collectability (Note 10).

Investment Property

Recoverability of the loans issued and the advances paid on investments

The Group assesses at each balance sheet date the recoverability of the loans issued and the advances paid.

Loans issued

The Group recognizes the allowances on the loans issued if the repayment of the loans by the borrower is doubtful. This involves an estimation of the financial situation of the borrower and its ability to generate sufficient cash to repay the loans in the future. Such an estimation involves significant uncertainties based on the current volatility of the economic environment and limited information on the borrowers' financial situation and prospects (Note 32).

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Notes to Consolidated Financial Statements (continued)

4. Significant Accounting Judgments and Estimates (continued)

4.2 Significant Accounting Estimates (continued)

Advances paid on investments

The Group recognizes allowances on advances paid on investments if the Group expects that the value of the investment to be received in exchange is less than the advances paid. This involves estimations of the fair value of the investments. Such an estimation involves significant uncertainties based on the current volatility of the economic environment and limited information on the investment (Note 32).

5. Summary of Significant Accounting Policies

5.1 Principles of Consolidation

Subsidiaries

Subsidiaries are 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 on which control ceases. All inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Wherever necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

5.2 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 recognised directly in the income statement.

The financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent company based on unified accounting policies.

The acquisition of subsidiaries in transactions under common control is accounted for using the purchase method if there is substance to such transactions.

Acquisition of productive assets (single asset entities)

Acquisition of a subsidiary that does not constitute a business but a group of productive assets is not considered a business combination, and the cost of such acquisition is allocated to the identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition. In case the group of productive assets include land lease rights, the cost allocated to these land lease rights will be recorded under prepaid land lease rights and amortised over the term of lease.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

5. Summary of Significant Accounting Policies (continued)

5.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at banks and short-term deposits with original maturity not exceeding three months.

5.4 Receivables

Trade receivables, generally short-term, are carried at the original invoice amount less the allowance for any uncollectible amounts. An allowance is made when there is evidence that the Group will not be able to collect the debts.

5.5 Inventories

Inventories are recorded at lower cost and net realizable value. The cost of retail inventory is determined on a weighted average basis, net supplier discounts and a provision for estimated physical losses. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

5.6 Property and Equipment

Property and equipment are recorded at purchase or construction cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when the cost is incurred if the recognition criteria are met. At each reporting date, management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property and equipment are included in the income statement as incurred.

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the balance sheet date. Accrual of depreciation commences when property and equipment are put into operation.

The borrowing cost directly attributable to the acquisition or construction of property and equipment is capitalised as a part of the cost of these assets. The amount of the borrowing cost capitalised on qualifying assets is determined by using the weighted average of the borrowing cost outstanding during the period of acquisition or construction.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

5. Summary of Significant Accounting Policies (continued)

5.6 Property and Equipment (continued)

Depreciation is calculated on a straight-line basis over the following estimated useful economic lives of the assets:

<u>Asset Category</u>	<u>Depreciation Period</u>
Buildings	30 years
Trade equipment	8 years
Vehicles	7-10 years
Leasehold improvements	Shorter of useful life or term of lease
Other assets	6 years

In 2008, the useful life of trade equipment and vehicles has been reassessed. The reassessment reduced the amount of current-year depreciation by RR 52,057, or 6.9% of the total depreciation of fixed assets in 2008. The largest part of the reduction (RR 49,236) is due to an increase in the expected term of useful life of trade equipment from 7 to 8 years.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year end.

5.7 Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of the existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of the investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

5.8 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary undertaking at the date of acquisition. Goodwill on the acquisition of a subsidiary is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Notes to Consolidated Financial Statements (continued)

5. Summary of Significant Accounting Policies (continued)

5.8. Goodwill (continued)

Goodwill is reviewed for impairment annually or more frequently if events or changes in the circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units), and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

5.9 Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that an intangible asset may be impaired. Amortisation periods and the methods used for intangible assets with finite useful lives are reviewed at least at each fiscal year end. Amortisation is calculated on a straight-line basis over the useful economic lives of other intangible assets from 3 to 10 years.

5.10 Employee Benefits

In the normal course of business, the Group contributes to Russia's state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

5.11 Borrowings

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the fair value of the consideration received (net transaction costs) and the redemption amount is recognised as an interest expense over the borrowing period.

5.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event and when 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 the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

5. Summary of Significant Accounting Policies (continued)

5.12 Provisions (continued)

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 liability. Where discounting is used, an increase in the provision due to the passage of time is recognised as borrowing cost.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

5.13 Revenues and Expenses

Revenues and expenses are recognised in the period when revenue is earned and expenses are incurred. Revenue is recognised when the title to the goods and 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.

Revenues consist of retail sales through own and franchised stores and rental income. Franchised stores are owned and operated by third and related parties. The majority of franchised stores operates under commission contracts and sells goods on behalf of the Group. Such franchisees are paid a fixed commission on sales which is recorded as operating expenses. No other operating expenses are incurred by the Group with respect to the franchised stores. The remaining franchised stores purchase goods from the Group (wholesale revenue) and re-sell them on their own behalf.

Discounts and rebates from suppliers are allocated to the cost of goods sold or inventory at the balance sheet date in accordance with the terms of the contract.

5.14 Leases

The determination of whether an arrangement is a lease or contains a lease is based on the substance of the leased item and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or the Group substantially takes all the risks and benefits incidental to ownership of the leased item, being capitalised at the date of commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

Capitalised leased assets are depreciated by using the straight-line method over the shorter of the estimated useful life of an asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Where the Group leases property and equipment to a third party and retains substantially all the risks and rewards of ownership of the asset, the leases are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

5. Summary of Significant Accounting Policies (continued)

5.15 Income Taxes

Income tax has been computed in accordance with the laws of the Russian Federation. It is based on the results of the period as adjusted for items that are non-assessable or disallowed for tax purposes.

Deferred tax assets and liabilities are calculated in respect of the temporary differences by using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax base for assets and liabilities and their carrying values for financial reporting purposes, except where deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.16 Value Added Tax

Value added tax ("VAT") is payable to tax authorities upon the date of a sales transaction. VAT on purchases (input VAT), which arose at the balance sheet date, is deducted from the amount payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Value Added Tax Recoverable

VAT recoverable relates to input VAT which cannot be claimed at the balance sheet date because either certain conditions will be fulfilled in due time or additional documentation is required.

6. Business Combinations

Acquisitions in 2008

On January 3, 2008, the Group acquired a 96.7% and on March 1, 2008 a 3.3% interest in LLC NK Proviant, which is a real estate operator in the Nizhny Novgorod region.

The company was sold to the Group by LLC Kopeyka-Povolzhe, a related party. The amount given as consideration (RR 641,000) represents fair value of net assets before deferred tax adjustments and was netted with receivables from LLC Kopeyka-Povolzhe. Goodwill arises mainly because of the recognition of deferred income tax liability amounting RR 147,933.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

6. Business Combinations (continued)

Acquisitions in 2008 (continued)

The carrying amount of the acquired identifiable assets, liabilities and contingent liabilities at the acquisition date was:

LLC NK Proviant

Investment property	660,561
Property and equipment	38,687
Cash	50
Trade and other receivables	104,068
Other current assets	1,150
Deferred income tax liability	(147,933)
Short-term loans	(118,612)
Other current liabilities	(56,876)
Goodwill	159,905
	641,000
Net assets acquired	641,000
Total acquisition cost	641,000
Cash paid	-
Cash of LLC NK Proviant	50
Net cash inflow	50

From the date of acquisition, LLC NK Proviant has contributed RR 6,073 to the net loss of the Group.

Acquisition in 2007

On January 20, 2007, the Group acquired 100% interest in LLC Trade Firm Makedonia for a consideration of RR 5,000. As LLC Trade Firm Makedonia only held a lease contract for retail property but was not operating a business, the acquisition was accounted for a single asset entity (see Note 5.1) and the consideration was allocated to prepaid land lease rights.

On February 23, 2007 the Group acquired 100% interest in CJSC Privately owned security guard enterprise Gudvill-Garant located in Moscow, Russia, for a consideration of RR 20.

7. Disposals

7.1 Disposal of subsidiaries in 2007

In May 2007, the Group disposed of all of its shares in Kopeyka Nizhni Novgorod. The subsidiary contributed RR 27,287 to the Group net profit for the year, including gain on the disposal of RR 29,990.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

7. Disposals (continued)

7.1 Disposal of subsidiaries in 2007 (continued)

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

	Carrying amount at date of disposal
Property and equipment	1,742
Deferred income tax asset	3,948
Non-current assets	5,690
Trade and other receivables	58,392
Taxes receivable	13,756
Cash and cash equivalents	1
Other current assets	523
Current assets	72,672
Deferred income tax liability	61
Non-current liabilities	61
Current liabilities	107,792
Net identifiable liabilities	29,491
Consideration received	500
Cash disposed	(1)
Net cash inflow	499

7.2 Discontinued operations in 2007

On December 28, 2007, the Board of Directors of the Group decided to dispose of LLC Trade Firm Samara Product (including its subsidiary LLC Alcor), LLC Kopeyka Voronezh, LLC Kopeyka Yaroslavl and LLC Kopeyka Vladimir. The results of years 2006 and 2007 had demonstrated the demand for a differential approach to business activity in the regions. The centralized management structure exercised in OJSC TD Kopeyka did not make it possible to respond efficiently to the rapidly changing business environment. Consequently, the Group decided to restructure its business and sell the above companies to LLC Kopeyka-Povolzhe. On December 28, 2007, the Group disposed of all of its shares in Kopeyka Voronezh, Kopeyka Yaroslavl, Kopeyka Vladimir, and Trade Firm Samara Product (including its subsidiary LLC Alcor).

The operations of these legal entities in the Samara, Voronezh, Vladimir and Yaroslavl regions were classified as discontinued operations as at December 31, 2007 and the comparative income statement has been represented to show the discontinued operations separately from the continuing operations.

The subsidiaries contributed RR 249,869 to the net profit for the year, including the gain on the disposal of RR 1,538,976.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

7. Disposals (continued)

7.2 Discontinued operations in 2007 (continued)

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

	<u>Carrying amount at date of disposal</u>
Property and equipment	1,220,059
Intangible assets	627,887
Deferred income tax asset	7,588
Other non-current assets	710
Non-current assets	<u>1,856,244</u>
Inventories	392,595
Trade and other receivables	130,150
Taxes receivable	267,222
Cash and cash equivalents	177,417
Other current assets	1,890
Current assets	<u>969,274</u>
Long term debt	841,355
Deferred income tax liability	47,212
Non-current liabilities	<u>888,567</u>
Trade and other payables	2,805,493
Taxes payable	16,434
Current liabilities	<u>2,821,927</u>
Net identifiable liabilities	<u>(884,976)</u>
Consideration receivable	<u>654,000</u>
Consideration received, satisfied in cash	-
Cash disposed of	(177,417)
Net cash outflow	<u>(177,417)</u>

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

7. Disposals (continued)

7.2 Discontinued operations in 2007 (continued)

Income from discontinued operations can be summarized as follows:

	2007	2006
Revenues	3,475,995	1,169,609
Expenses	(4,493,991)	(1,243,388)
Loss from operating activities	(1,017,996)	(73,779)
Finance Costs	(136,949)	(137)
Loss before tax from discontinued operations	(1,154,945)	(73,916)
Tax income/(expense)		
- related to current pre-tax profit/(loss)	-	(244)
- related to charges in deferred tax	(134,162)	81,234
Profit/(loss) for the period from discontinued operations	(1,289,107)	7,074
- gain on disposal of the discontinued operations	1,538,976	-
Gain after tax for the period from discontinued operations	249,869	7,074
The net cash flows from (used in) discontinued operations:		
Net cash from/(used in) in operating activities	148,349	(125,828)
Net cash used in investing activities	(1,249,080)	(582,935)
Net cash from financing activities	1,152,945	804,881
Net cash from discontinued operations	52,214	96,118

8. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	December 31, 2008	December 31, 2007
Petty cash	132,558	90,606
Cash at bank	177,067	221,311
Restricted cash	-	32,184
Cash to be deposited with banks	179,067	422,625
Total cash and cash equivalents	488,692	766,726

All cash amounts are denominated in Russian Roubles.

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

9. Inventories

Inventories consisted of the following:

	December 31, 2008	December 31, 2007
Goods for resale in own stores and warehouse	2,689,630	2,237,255
Goods for resale in franchised stores	190,909	–
Other inventories	26,805	29,527
Allowance for obsolescence and inventory losses	(49,652)	(72,696)
Total inventories, net	2,857,692	2,194,086

Goods for resale consisted of stocks in the retail outlets and warehouses and franchised stores. Provision for physical losses was estimated on the basis of the results of periodic inventory counts. Provision for obsolescence reflected the reduction in the net realizable value due to the goods being damaged or wholly or partially obsolete.

10. Trade Receivables

Trade receivables consisted of the following:

	December 31, 2008	December 31, 2007
Trade receivables from third parties	1,048,778	801,742
Trade receivables from related parties (Note 32)	1,128,440	1,484,360
Allowance for doubtful accounts	(9,773)	(455)
Total trade receivables, net	2,167,445	2,285,647

Trade receivables from third parties mainly consist of receivables from suppliers for discounts provided exceeding the trade payables to the suppliers at the balance sheet date.

11. Advances Paid

Advances paid consisted of the following:

	December 31, 2008	December 31, 2007
Advances to suppliers	271,481	211,480
Other advances paid to related parties (see Note 32)	253,359	725,470
Prepaid rent	–	80,201
Other	680	9,451
Total advances paid	525,520	1,026,602

12. Taxes Receivable

Taxes receivable consisted of the following:

	December 31, 2008	December 31, 2007
VAT recoverable	319,940	295,416
Prepaid VAT	570,287	479,081
Income and other taxes receivable	11,272	45,915
Total taxes receivable	901,499	820,412

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

12. Taxes Receivable (continued)

The VAT recoverable represents mainly amounts paid in relation to the acquisition of fixed assets to be commissioned, construction in progress and the purchase of goods for resale, which will be offset against VAT on the sale of goods to customers. Prepaid VAT represents mainly the amounts paid in excess of the revised VAT tax returns of the previous reporting periods. The Group believes that the amounts are fully recoverable within a year.

13. Other Current Assets

Other current assets consisted of the following:

	December 31, 2008	December 31, 2007
Interests on loans from related parties (Note 32)	321,057	89,327
Receivables from related parties (Note 32)	88,949	1,068,377
Deferred Expenses	10,256	10,432
Lease receivable	2,438	-
Total other current assets	422,700	1,168,136

14. Property and Equipment

An analysis of transactions in property and equipment is as follows:

	Buildings	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improvements	Total
Cost							
Balance as of January 1, 2007	3,937,617	2,243,346	352,702	190,929	1,002,248	898,688	8,625,530
Additions	-	-	-	-	1,441,203	630,301	2,071,504
Transfer	621,963	653,005	326,643	151,220	(1,752,831)	-	-
Disposals	(133,235)	(25,344)	(59,210)	-	(39,778)	-	(257,567)
Discontinued operations	(85,220)	(630,245)	(93,008)	(54,675)	(112,807)	(473,743)	(1,449,698)
Reclassification	(372,439)	(76,165)	-	76,165	-	372,439	-
Acquisition of a subsidiary	-	-	-	475	-	-	475
Balance as of December 31, 2007	3,968,686	2,164,597	527,127	364,114	538,035	1,427,684	8,990,244
Accumulated depreciation							
Balance as of January 1, 2007	(254,915)	(472,485)	(61,884)	(52,246)	-	(146,004)	(987,534)
Depreciation	(140,319)	(337,691)	(54,433)	(50,988)	-	(242,603)	(826,034)
Disposals	18,005	20,825	15,848	454	(18,362)	-	36,770
Impairment	-	-	-	-	-	(23,015)	(23,015)
Reclassification	8,849	6,455	-	(6,455)	-	(8,849)	-
Discontinued operations	4,143	88,374	6,794	23,925	-	106,403	229,639
Balance as of December 31, 2007	(364,237)	(694,522)	(93,675)	(85,310)	(18,362)	(314,068)	(1,570,174)
Net book value	3,604,449	1,470,075	433,452	278,804	519,673	1,113,617	7,420,070

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

14. Property and Equipment (continued)

	Buildings	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improvements	Total
Cost							
Balance as of January 1, 2008	3,968,686	2,164,597	527,127	364,114	538,036	1,427,684	8,990,244
Transfer to Investment property	(91,286)	-	-	-	-	-	(91,286)
Reclassification	(126,800)	(149,798)	(5,684)	208,748	13,460	60,074	-
Additions	1,301,915	178,492	170,959	120,332	89,000	263,302	2,124,000
Transfer	130,632	44,917	-	-	(175,549)	-	-
Disposals	(857,052)	(32,312)	(50,542)	(16,390)	(9,153)	(84,962)	(1,050,411)
Acquisition of a subsidiary	12,791	1,546	-	5,408	18,942	-	38,687
Balance as of December 31, 2008	4,338,886	2,207,442	641,860	682,212	474,736	1,666,098	10,011,234
Accumulated depreciation							
Balance as of January 1, 2008	(364,237)	(694,522)	(93,675)	(85,310)	(18,362)	(314,068)	(1,570,174)
Reclassification	47,104	48,982	(2,351)	(105,601)	18,362	(6,496)	-
Depreciation	(124,048)	(242,278)	(56,423)	(85,385)	-	(229,526)	(737,660)
Disposals	91,392	16,116	10,634	9,643	-	13,900	141,685
Impairment	-	(3,243)	-	-	-	(5,223)	(8,466)
Balance as of December 31, 2008	(349,789)	(874,945)	(141,815)	(266,653)	-	(541,413)	(2,174,615)
Net book value	3,989,097	1,332,497	500,045	415,559	474,736	1,124,685	7,836,619

As of December 31, 2008, the gross carrying amount of fully depreciated property and equipment was RR 460,303 (2007: RR 388,818)

The amount of borrowing costs capitalised in 2008 was RR 4,271 (2007: RR 6,334)

The amounts in the 'Acquisition of a subsidiary' category reflect the Company's acquisition of LLC NK Proviant.

The amounts in the 'Construction in progress' column represent balances and movements of construction items that are not completed, items of equipment not put into use and advances paid to suppliers of property and equipment.

A possible indication of impairment was identified for loss-generating and low-profitable shops in Moscow and the Moscow region. For impairment testing purposes, the recoverable amount of the group stores has been determined on the basis of the value-in-use calculation based on cash flow projection using financial budgets approved by management. The cash generating unit consisted of the assets of each particular shop. The discount rate applied to cash flow projections is 19.2% per annum. The growth rate of 14% was assumed for 2009 and 2010. Beginning from 2011 (growth rate of 8.4%), decreasing growth rates (down to 5.3%) were assumed. The total amount of impairment related to cash generating units comes to RR 15,374 (property and equipment, RR 8,466, and intangible assets, RR 6,908 – Note 16).

In 2008, changes in presentation within the categories of fixed assets were made.

As of December 31, 2008, five real estate premises (balance value of RR 188,230) were pledged as collateral for short-term loans from Sberbank Rossii OJSC (RR 580,000).

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

15. Investment Property

Investment property includes retail and non-retail premises leased or held for lease to our franchisees, except those operating on a commission basis, and to third parties.

	Investment property 2008
	<u> </u>
Cost	
Balance as of January 1	–
Acquisition of a subsidiary	660,561
Additions	380,405
Transfer form property and equipment to investment property	91,286
Change in fair value as of the balance sheet date	140,613
	<u> </u>
Balance as of December 31	<u>1,272,865</u>

Investment properties are stated at fair value, which has been determined on the basis of the valuations performed by LLC Kompaniya Ocenochnyi standart, an accredited independent valuer, as at December 31, 2008. LLC Kompaniya Ocenochnyi standart is an industry specialist in valuing these types of investment property. The fair value of the properties have been determined on the basis of the transactions observable in the market, and the valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

Average yields of 16% were used in the valuation reports.

In 2008, rental income from investment property was RR 113,666, about 25% of the total rental income of the Group (RR 461,296). Operating expenses related to investment property amount to RR 23,682.

The future minimum lease payments under non-cancellable operating leases related to the investment property above are as follows:

Within one year	145,729
After one year but not more than five years	516,868
More than five years	1,351,554

OJSC TD KOPEYKA

Notes to Consolidated Financial Statements (continued)

16. Intangible Assets

An analysis of transactions in intangible assets is as follows:

	2008			2007		
	Goodwill	Other	Total	Goodwill	Other	Total
Cost						
Balance as of January 1	2,115,224	166,977	2,282,201	2,638,412	262,518	2,900,930
Additions	–	140,027	140,027	–	31,719	31,719
Disposals	–	–	–	(523,188)	(127,260)	(650,448)
Acquisition of a subsidiary	159,905	–	159,905	–	–	–
Balance as of December 31	2,275,129	307,004	2,582,133	2,115,224	166,977	2,282,201
Accumulated amortization						
Balance as of January 1	–	(90,540)	(90,540)	–	(63,051)	(63,051)
Amortization	–	(58,230)	(58,230)	–	(49,459)	(49,459)
Disposals	–	–	–	–	21,970	21,970
Impairment	–	(6,908)	(6,908)	–	–	–
Balance as of December 31	–	(155,678)	(155,678)	–	(90,540)	(90,540)
Net intangible assets	2,275,129	151,326	2,426,455	2,115,224	76,437	2,191,661

As described in Notes 4 and 5, Goodwill represents the difference between the purchase price and the fair value of the net assets of the subsidiaries acquired. Goodwill in the amount of RR 2,115,224 relates to acquisitions in the course of the Group's formation in May 2002.

In January 2008, the Group acquired LLC NK Proviant and recognised goodwill of RR 159,905, which arose in the amount RR 147,933 based on the recognition of a deferred tax liability.

Carrying amount of goodwill as of December 31 can be summarized as follows:

	2008	2007
Group of stores at formation in 2002	2,115,224	2,638,412
Acquisition of LLC NK Proviant in 2008	159,905	–
Stores disposed off through LLC Trade Firm Samara Product in 2007	–	(523,188)
Total carrying amount of goodwill	2,275,129	2,115,224

For goodwill impairment testing (group of stores upon formation in 2002) purposes, the recoverable amount of the group stores in Moscow and the Moscow region (resulting from the original stores in 2002) has been determined on the basis of a value-in-use calculation based on cash flow projections using the financial budgets approved by senior management. The same discount rate and growth rates as described in Note 14 have been applied.

The calculation of value-in-use for both groups is most sensitive to the following key assumptions:

- Gross margin – determination of the assigned value reflects past experience;
- Discount rate – assigned value reflects an estimation of the weighted-average capital cost;
- Growth rate used to extrapolate cash flows – assigned value reflects market average growth

The impairment test on the goodwill of Moscow and the Moscow region operating segment did not lead to an impairment of the goodwill.

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Notes to Consolidated Financial Statements (continued)

16. Intangible Assets (continued)

A major part of the goodwill related to the acquisition of LLC NK Proviant arose from the recognition of deferred tax liability (RR 147,933). At the date of acquisition for impairment test purposes, goodwill was netted with deferred tax liability, and therefore no impairment loss was recognised. At the balance sheet date, there were no significant changes compared to the acquisition date.

Other intangible assets include purchased software, licenses, rent rights and trademarks. The amortization of other intangible assets is calculated on a straight-line basis over the estimated useful lives of the respective assets. In 2008, the Group purchased licenses for mySAP Business Suite for RR 43,568.

Impairment loss was recognised on intangible assets related to loss-making or low-profitable shops (see Note 14 above).

17. Long Term Loans

Long term loans comprise mainly loans granted to related parties (see Note 32).

18. Other Non-Current Assets

Other non-current assets consisted of the following:

	December 31, 2008	December 31, 2007
Long term rent deposits	55,137	52,871
Long term lease receivable	7,076	21,936
Other	935	874
Total	63,148	75,681

19. Trade Accounts Payable

Trade payables represent current payables to suppliers of goods and services and property and equipment in the amount of RR 6,592,411 (2007: RR 5,309,331) and are denominated in Russian Roubles.

Trade accounts payable significantly increased in 2008 due to the prolongation of the terms of payment with major suppliers from 30 days to 60 days.

20. Taxes Payable

Taxes payable consisted of the following:

	December 31, 2008	December 31, 2007
Value added tax payable	384,754	118,516
Property tax	30,804	32,593
Income tax	8,311	52,101
Other taxes	86,066	34,484
Total taxes payable	509,935	237,694

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Notes to Consolidated Financial Statements (continued)

21. Debt

Short-term debt consisted of the following as of December 31:

	December 31, 2008	December 31, 2007
Bonds issued (a)	3,866,167	5,200,000
OJSC BANK URALSIB (c)	–	859,117
AB Gazprombank (d)	393,958	700,011
CJSC Raiffeisenbank Austria (b)	–	400,000
Sberbank Rossii OJSC (e)	580,000	–
Moskovsky Kreditny bank OJSC (f)	333,333	–
Other short term loans	2,895	1,986
Short term debt payable	1,631	26,894
Interest and coupons payable	89,401	87,999
Financial leasing short-term payable to third parties	40,491	–
Unamortised notes issued discount	(2,990)	–
Unamortised loan origination cost	–	(4,751)
Total short term debt	5,304,886	7,271,255

Long-term debt consisted of the following as of December 31:

	December 31, 2008	December 31, 2007
Long term debt		
Bonds issued (a)	3,820,863	4,000,000
Unamortised bond discount (a)	–	(18,673)
Unamortised loan modification cost	(148,646)	(5,947)
Other long term debt	16,858	46,524
Total long term debt	3,689,075	4,021,904

- a) On June 21, 2005, the Group placed its first bonds issue for RR 1,200,000 (par value) with quarterly coupon payments maturing on June 17, 2008. On June 17, 2008, the first bonds issue was repaid by the Company.

On February 22, 2006, the Company issued its second bond issue totalling RR 4,000,000 and placed RR 1,900,000 at the same date. The second bond is repayable in 6 years and has 24 quarterly coupons. The coupon rate was set at 8.70% per annum for coupons 1-12 and the bondholders have an early redemption option exercisable on February 18, 2009, when the coupon rate for coupons 13-24 will be established. The remaining amount was placed during April, May, June and July 2006 with a discount. In 2008, LLC Kopeyka Development purchased bonds in the amount of RR 312,970.

On February 21, 2007, the Company issued its third bond issue totalling RR 4,000,000, which is repayable in 6 years and has 24 quarterly coupons. These bonds were immediately placed on the market and sold at par value. The coupon rate was set 9.80% per annum for coupons 1-6, and the bondholders had an early redemption option exercisable on August 20, 2008, when the coupon rate for coupons 7-24 had to be established.

In August 2008, the financial corporation Uralsib (FC Uralsib) acquired over 95% of the bonds of the third issue. At the same time, the Company offered to the bondholders a new option for early bond redemption on August, 20, 2009. However, FC Uralsib confirmed that the redemption option will not be exercised at the early redemption option date in August 2009. Bonds of the third issue held by FC Uralsib in the amount of RR 3,820,863 are classified as long term debt; the remaining bonds (RR 179,137) held by other bond holders were reclassified into short term debt.

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Notes to Consolidated Financial Statements (continued)

21. Debt (continued)

- b) The loan to CJSC Raiffeisenbank (10.07% annually) was repaid in March 2008.
- c) In November 2007, OJSC Bank Uralsib provided the Group with a credit line in the amount of USD 35 mln (RR 859,117) at an interest rate of 12% per annum, which was fully used by the group as of December 31, 2007. The amount was repaid by 11 December 2008.
- d) The loan to AB Gazprombank (10% annually) was repaid in April 2008. A new credit line in the amount of RR 1,000,000 at an interest rate of 13.00% per annum was obtained from AB Gazpromabnk in July 2008. The interest rate was subsequently increased to 19% per annum.
- e) The Group obtained two loans from Sberbank Rossii OJSC. The first loan (RR 600,000) was repaid in January 2009 (RR 80,000 was outstanding on December 31, 2008 and repaid in January 2009) at the interest rate of 11,5% per annum. The second loan was obtained in December 2008 in the amount of RR 600,000 (RR 500,000 was outstanding on December 31, 2008; the remaining RR 100,000 were received in January 2009) at an interest rate of 12.25% per annum.
- f) The Group obtained three loans from Moskovsky Kreditny Bank OJSC. All loans were obtained in November 2008 in the amount of RR 400,000 at an interest rate of 18.00% per annum. (RR 333,333 were outstanding on December, 31, 2008)

22. Other Current Liabilities

	December 31, 2008	December 31, 2007
Payables from purchase of fixed assets and shares (Note 32)	850,275	–
Wages and social taxes	450,608	303,804
Payables for services received	293,093	–
Commission payable to related parties (see Note 32)	164,296	15,434
Advances received for property and equipment	108,652	–
Accounts payable for repair and maintenance	40,300	–
Financial lease deferred revenue	2,577	1,760
Other payables	66,696	3,988
Total other current liabilities	1,976,497	324,986

23. Share capital

	Ordinary shares 2008	Ordinary shares 2007
<i>Number of shares unless otherwise stated</i>		
Authorised shares	2,725,146	2,725,146
Par value	RR 1	RR 1
Issued at beginning of year	2,725,146	2,725,146
On issue at end of year, fully paid	2,725,146	2,725,146

24. Dividends

The Company did not declare any dividends in 2008, as well as in 2007.

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Notes to Consolidated Financial Statements (continued)

25. Other Revenues

Other revenues for the years ended December 31 consisted of the following:

	2008	2007
Rent	461,296	233,632
Other	105,497	82,659
Total other revenues	566,793	316,291

Other revenues consist mainly of revenues from IT services (RR 81,221, 2007: RR 0), revenues from security services (RR 12,720, 2007: RR 3.769), and royalties (RR 8,145, 2007: RR 558).

26. Cost of Goods Sold

Cost of goods sold for the years ended December 31 consisted of the following:

	2008	2007
Goods for resale	37,491,602	28,233,410
Penalties paid to related parties (Note 32)	200,121	-
Shortage of goods	162,752	380,366
Discounts provided by suppliers	(1,943,392)	(1,237,102)
Total cost of goods sold	35,911,083	27,376,674

27. Selling, General and Administrative Expenses

Selling, general and administrative expenses, excluding store pre-opening costs for the years ended December 31 consisted of the following:

	2008	2007
Personnel	3,267,163	2,524,572
Rent	1,521,555	1,136,075
Commissions to franchisees	1,679,257	764,056
Utilities	533,595	425,245
Repair and maintenance	261,028	265,921
Marketing and advertising	325,112	190,258
Materials and supplies	277,429	168,372
Warehouses	190,961	143,010
Taxes other than income tax	173,658	140,456
Audit, consulting and legal fees	127,991	39,627
Bank charges	80,187	53,088
Security	51,011	73,787
Communication costs	48,938	44,719
Transportation	24,220	44,685
Insurance	12,892	11,751
Depreciation, amortization and impairment	811,264	742,914
Other	275,114	53,296
Total selling, general and administrative expenses	9,661,375	6,821,832

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Notes to Consolidated Financial Statements (continued)

28. Pre-opening costs

Pre-opening costs mainly consisted of rent, utilities, transportation and communication expenses incurred during the periods prior to the opening of stores.

29. Other operating income (expenses)

Other operating income (expenses) consisted of the following:

	<u>2008</u>	<u>2007</u>
Gain from disposal of non-current assets, net	576,525	–
Change in fair value of investment property	140,613	–
Change of provision for other assets	20,092	–
Leasehold improvements write-off in closed shops	(28,183)	–
Loss from disposal of other assets	(16,312)	–
Other non-operating income/(expenses)	(8,888)	38,719
Change of provisions for doubtful accounts	(8,510)	–
Change fair value of other assets	(5,680)	–
Total Other operating income (expenses)	<u>669,657</u>	<u>38,719</u>

30. Financial Income/(Expense), net

Financial income and expense, net for the years ended December 31 consisted of the following:

	<u>2008</u>	<u>2007</u>
Interest income	397,192	52,927
Interest expense	(1,110,780)	(862,507)
Total financial expense, net	<u>(713,588)</u>	<u>(809,580)</u>

Interest income consists mainly of interests on loans granted to the disposed subsidiaries and other related parties (see Note 32).

The interest expense mainly consists of interests on bonds issues (RR 805,280) and interests on bank loans (RR 239,104).

31. Income Taxes

Income tax expense consisted of the following amounts:

	<u>2008</u>	<u>2007</u>
Current income tax expense	(135,107)	(99,274)
Tax on intra-group dividends	–	(5,040)
Deferred income tax benefit/(expense), net	388,022	(109,334)
Total income tax benefit/(expense)	<u>252,915</u>	<u>(213,648)</u>

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Notes to Consolidated Financial Statements (continued)

31. Income Taxes (continued)

Reconciliation between the income tax expense reported in the accompanying income statements and income before taxes multiplied by the statutory tax rate of 24% is as follows:

	<u>2008</u>	<u>2007</u>
Loss before income taxes from continuing operations	(1,763,761)	(156,720)
Profit before income taxes from discontinued operations	–	384,018
Profit/(Loss) before income taxes	(1,763,761)	227,298
Tax benefit/(expense) computed on income before taxes at the statutory tax rate of 24%	423,303	(54,552)
Effect of change in tax rate from 24% to 20%	23,595	–
Tax on intra-group dividends	–	(5,040)
Non-deductible inventory shortages	(9,930)	(91,288)
Effect of other non-deductible expenses	(184,053)	(62,768)
Income tax benefit/(expense)	252,915	(213,648)

The deferred tax balances were calculated by applying the statutory tax rate of 20% (December 31, 2007: 24%) enacted at the respective balance sheet date. Temporary differences and effects of changes in the tax rate are as follows:

	<u>December 31, 2008 Rate 20 %</u>	<u>December 31, 2007 Rate 24 %</u>
Effect of temporary differences resulting in deferred tax asset:		
Loss carried forward	51,238	97,520
Valuation of goods for resale	7,595	22,063
Valuation of accounts receivable	1,703	6,502
Valuation of accounts payable	17,294	–
Valuation of long term investments	1,837	–
Valuation of short term investments	58,231	–
Valuation of loans and vacation provisions	597,704	–
Valuation of advances paid	57,596	
Other	3,767	312
Total deferred tax asset	796,965	126,397
Netting with deferred tax liability	(343,285)	
Deferred tax asset	453,680	

The management of the Group expects taxable profits in the foreseeable future. Therefore, no provision for the deferred tax assets has been made.

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Notes to Consolidated Financial Statements (continued)

31. Income Taxes (continued)

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
	<u>Rate 20 %</u>	<u>Rate 24 %</u>
Effect of temporary differences resulting in deferred tax liability:		
Property and equipment valuation	40,465	180,547
Valuation of accounts payable	–	33,402
Valuation of long term debt	21,633	4,903
Valuation of short term debt	58,960	–
Valuation of accounts receivable	8,343	47,415
Valuation of differed charges	50,184	–
Dividends payable	103,163	–
Business combination	119,167	–
Other assets valuation	-2,363	1,700
Other liability valuation	9,391	–
Total deferred tax liability	408,943	267,967
Netting with deferred tax assets	(343,285)	–
Deferred tax liability	65,658	–
Net deferred tax asset/(liability)	388,022	(141,571)

In 2007 and 2008, several subsidiaries of the Group that recently started operations within the Group incurred tax losses resulting in deferred tax assets of RR 65.288 (2007: RR 97,520). These losses can be offset against future taxable profits within the following 10 years. Management reviewed the probability that the associated tax benefit will be fully realized within the allowable carry forward period. Based on these assumptions, management concluded that no valuation allowance is required in this respect.

32. Related Party Transactions

Significant related party transactions relate to Uralsib Group and Kopeyka Povolzhe Group, which are other related parties.

As of December 31, 2008, the following entities form Kopeyka Povolzhe Group:

- LLC Kopeyka-Povolzhe (retail company),
- LLC Kopeyka-Sarov (retail company),
- LLC Kopeyka Voronezh (retail company),
- LLC Kopeyka Vladimir (retail company),
- LLC Kopeyka Yaroslavl (retail company),
- LLC Trade Firm Samara Product (retail company),
- LLC Alkor (retail company),
- LLC Rokset (retail company).

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Notes to Consolidated Financial Statements (continued)

32. Related Party Transactions (continued)

Related Party Balances as at December 31, 2008 can be summarized as follows:

Related Party	Long term loans receivable (including interest accrued) (a)	Trade Receivables (b)	Advances paid (c)	Short term Loans receivable	Other current assets	Deposits & Cash	Total
Uralsib Group	-	-	-	-	-	18,193	18,193
Kopeyka Povolzhe Group	1,063,223	1,128,440	-	-	88,949	-	2,280,612
Onceil Trading Ltd	-	-	253,359	-	-	-	253,359
Other	5,468	-	-	55,418	-	-	60,886
Total	1,068,691	1,128,440	253,359	55,418	88,949	18,193	2,613,050

	Loans payable	Trade Payables	Other Payables (d)	Total
Kopeyka Povolzhe Group	1,658	207,612	1,014,571	1,223,841

Related Party Balances as at 31 December 2007 can be summarized as follows:

Related Party	Loans receivable	Trade Receivables	Other current assets	Advances paid	Deposits & Cash	Total
Uralsib Group	-	-	-	-	33,359	33,359
Kopeyka Povolzhe Group	3,004,498	1,381,919	1,068,377	210,000	-	5,664,794
Onceil Trading Ltd.	-	-	-	515,470	-	515,470
Other	-	102,441	-	-	-	102,441
Total	3,004,498	1,484,360	1,068,377	725,470	33,359	6,316,064

	Loans payable	Other Payables	Total
Uralsib Group	859,117	3,467	862,584
Other	-	3,518	3,518
Total	859,117	6,985	866,102

a) The loans receivable from Kopeyka Povolzhe Group are as follows:

Company	December 21, 2008			Interest rate	Repayment Date
	Principal amount	Interest accrued	Total amount due		
LLC Kopeyka Povolzhe	1,110,250	-	1,110,250	12.00%	26.03.10
LLC Trade Firm Samara Product	947,262	82,596	1,029,858	12.00%	13.07.12
LLC Trade Firm Samara Product	187,655	17,572	205,227	12.00%	09.04.10
LLC Kopeyka Voronezh	679,766	141,196	820,962	12.00%	01.12.11
LLC Kopeyka Voronezh	556,671	75,013	631,684	12.00%	13.07.12
LLC Kopeyka Yaroslavl Provision	158,000	3,972	161,972	10.00%	13.07.12
	(2,896,730)	-	(2,896,730)		
Total	742,874	320,349	1,063,223		

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Notes to Consolidated Financial Statements (continued)

32. Related Party Transactions (continued)

The group assessed the financial situation of the related parties which received loans.

As a result of an analysis, an impairment loss in the amount of RR 2,896,730 was recognised in the income statement.

- b) Trade receivables are mainly the outstanding amounts for the sale of goods.
- c) In 2007, the Group paid advances to Onceil Trading Ltd. because it intends to buy shares of LLC Kopeyka-Povolzhe (RR 253,359; 2007: RR 515,470). The Group assessed that the advance paid to Onceil Trading for the intended purchase of 51% of shares in LLC Kopeyka-Povolzhe (RR 541,340) is still covered by the estimated fair value of Kopeyka Povolzhe Group. As a result of this analysis, a provision of RR 287,981 has been recognised.
- d) Other payables represent payables from the purchase of fixed assets from Kopeyka Povolzhe Group in the amount of RR 850,275 and the commission payable in the amount of RR 164,296.

Related Party Transactions in 2008 can be summarized as follows:

Trade revenues (Franchised stores)	6,160,898
Trade revenues (Wholesale)	752,154
Rental income	74,844
Other	90,514
Selling, general and administrative expenses	(1,147,388)
Gain from disposal of non-current assets	699,302
Interest income	390,770
Interest expense	(131,062)

Significant Related Party Transactions in 2007 included sales to Kopeyka Povolzhe Group (RR 4,191,765) in 2007 and the commission paid to Kopeyka Povolzhe Group (RR 421,610).

33. Compensation to Key Management Personnel

Key management personnel comprise members of the Management Board and the Board of Directors of the Group, totaling 8 persons as at December 31, 2008 (2007: 7). Total compensation to key management personnel amounted to RR 179,264 in 2008 (2007: RR 24,577).

34. Commitments and Contingencies

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.

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Notes to Consolidated Financial Statements (continued)

34. Commitments and Contingencies (continued)

Operating Environment of the Group (continued)

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital market 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 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.

The Group again incurred a loss and has negative working capital. The loss arises from the impairment of loans issued to related parties (Note 32). At the same time, profit from operating activities and cash generated from operations increased significantly compared to 2007. Management was also able to refinance bonds in 2009 with long-term loans (Notes 21, 36).

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.

Taxation

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 again. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may be manifest, if any, or the likelihood of any unfavourable outcome.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

As of December 31, 2008, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

The Group's policy is to accrue amounts for tax provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of December 31, 2008.

Management's estimate of the amount of possible liabilities, including fines that could be incurred in the event that the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group was approximately RR 58,907 as at December 31, 2008. These claims mostly related to the application of Constitutional court decision on deductibility of the input VAT paid. As the Group has a history of successful defence against similar claims, management believes these will not likely to result in a future outflow of resources, and consequently no provision is required in respect of these matters.

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Notes to Consolidated Financial Statements (continued)

34. Commitments and Contingencies (continued)

Legal Proceedings

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or the financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Purchase and Lease Commitments

As of December 31, 2008, the Group had a number of outstanding cancellable and non-cancellable long-term lease contracts in which the rent is stated in Russian Roubles or calculated on the basis of the US Dollar and Euro exchange rates. The rent is paid when incurred on a monthly basis. Future minimum rentals payable under the non-cancellable operating leases (expressed in RR as converted at the year-end exchange rate) were as follows as of December 31, 2008:

Operating sublease commitments – group as a lessor

	Contracts in RR
Within one year	151,026
After one year but not more than five years	49,564
Total	200,590

Operating lease commitments – group as a lessee

	Contracts in RR	Linked to USD rate	Linked to Euro rate	Linked to USD and Euro rates	Linked to USD and RR rates
Within one year	469,682	486,167	10,025	135,691	202,738
After one year but not more than five years	1,824,791	1,793,793	40,098	431,194	669,282
More than five years	559,958	922,377	30,074	124,570	218,611
Total	2,854,431	3,202,337	80,197	691,455	1,090,631

Finance lease commitments – group as lessee

The Group has a finance lease contract for Hewlett Packard IT equipment with the net carrying amount of RR 62,855 at December 31, 2008. Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	Minimum payments	Present value of payments
Within one year	91,518	79,443
After one year but not more than five years	8,218	6,141
Total minimum lease payments	99,736	85,583

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Notes to Consolidated Financial Statements (continued)

34. Commitments and Contingencies (continued)

Sale and lease-back of real estate.

In 2008, the Group sold 19 premises to Real Estate Investment Fund "Uralsib-Arenda". The transaction resulted in a profit of RR 640,558. The premises have been rented by the Group for a five-year period (July 2008 – July 2013). The rental rate is RR 21,395 per month (incl. VAT).

35. Financial Instruments and financial risk management objectives and policies

Financial risk management objectives and policies

The Group's principal short and long-term financial liabilities comprise bonds, bank loans, overdrafts and trade payables. The main purpose of the bond issues was to finance the growth in operating activities. Other financial instruments are used to raise finance for the Group's operations. The Group has various financial assets, such as trade receivables, cash and short-term deposits, which arise directly from its operations. Loans granted and other receivables arose from the disposal of subsidiaries.

The main risks arising from the Group's financial instruments are the cash flow interest rate risk, liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term debt obligations with floating interest rates (Note 21). The Group's policy is to manage its interest cost by monitoring changes in interest rates with respect to its borrowings.

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

Given the current financial situation, the Group estimates rising interest rates on the loans received as probable. The impact of an increase in the interest rates by 5 % is estimated below. However, if the economic situation will improve, the interest rates may decrease. The impact of a decrease in the interest rates by 2 % is estimated as well in the table below:

	Increase/ decrease in basis points	Effect on profit before tax for the next year
As at December 31, 2008	+500	(26,979)
	-200	10,792

In 2007, the interest rate risk was immaterial.

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Notes to Consolidated Financial Statements (continued)

35. Financial Instruments and financial risk management objectives and policies (continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (no liabilities are due in more than five years):

December 31, 2008	Total	Less than 3 months	3 to 12 month	1 to 5 years
Current bank loans	1,311,817	80,625	1,231,192	–
Bonds issued	8,954,421	3,826,750	295,342	4,832,329
Other liabilities	1,574,752	1,574,752	–	–
Trade and Taxes payables	7,504,091	7,504,091	–	–
	19,345,081	12,986,218	1,526,534	4,832,329

December 31, 2007	Total	Less than 3 months	3 to 12 month	1 to 5 years
Current bank loans	2,093,159	487,507	1,605,652	–
Bonds issued	9,896,697	212,378	5,637,601	4,046,718
Other liabilities	332,404	324,989	7,415	–
Trade and Taxes payables	5,547,625	5,547,625	–	–
	17,869,885	6,572,499	7,250,668	4,046,718

Credit Risk

Financial assets which potentially subject Group entities to credit risk consist primarily of trade receivables and loans to related parties (see Note 32) and cash. The Group has policies in place to ensure that sales of services and products are made to customers with an appropriate credit history. The carrying amount of accounts receivable represents the maximum amounts exposed to credit risk. Although the collection of receivables could be influenced by economic factors, the management believes that there is no significant risk of loss to the Group.

With respect to the credit risk arising from cash and cash equivalents, the Group's exposure to credit risk arises from default of the corresponding financial institution with a maximum exposure equal to the carrying amount of cash and cash equivalents.

Loans issued by the Group classified according to their maturity terms:

	Net carrying amount at 31 December 2008	of which: neither impaired nor past due	of which: not impaired but past due		
			3-6 months	6-12 months	> 12 months
	`000 RR	`000 RR	`000 RR	`000 RR	`000 RR
Long term loans including interest (Note 32)	1,124,109	1,124,109	–	–	–

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Notes to Consolidated Financial Statements (continued)

35. Financial Instruments and financial risk management objectives and policies (continued)

Credit Risk (continued)

The Group issued guarantees (RR 107,365) to the benefit of a bank which provided a long-term loan to Kopeyka Povolzhe Group.

There is a significant concentration of credit risk on related parties (see Note 32).

Management estimates the quality of the receivables as satisfactory and expects that the debtors will timely fulfill their obligations. The receivables are classified according to their aging in the following table:

31 December 2008	Trade receivables	Other current assets (excluding interests on loans)	Total
Related Parties	1,128,440	88,949	1,217,389
Third Parties	1,039,005	12,693	1,051,698
Total	2,167,445	101,642	2,269,087

31 December 2007	Trade receivables	Other current assets	Total
Related Parties	1,484,360	1,068,377	2,552,737
Third Parties	801,287	99,759	901,046
Total	2,285,647	1,168,136	3,453,783

	Total	Neither impaired nor past due	Not impaired but past due amounts for trade and other receivables		
			Less than 3 months	3 to 6 months	> 6 months
31 December 2008	2,269,088	1,381,025	–	297,226	590,837
31 December 2007	3,453,783	2,683,757	–	466,657	303,369

Past due amounts mainly relate to receivables from related parties.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group includes within net debt borrowings, trade and tax payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

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Notes to Consolidated Financial Statements (continued)

35. Financial Instruments and financial risk management objectives and policies (continued)

Capital risk management (continued)

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Borrowings	8,993,961	11,293,159
Trade and tax payables	7,102,346	5,547,625
Less: cash and cash equivalents	488,692	766,726
Net debt	15,607,615	16,074,058
Equity	2,081,074	3,591,920
Capital and net debt	17,688,689	19,655,978
Gearing ratio	88 %	82%

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of all of the Group's financial instruments, including those classified under discontinued operations that are carried in the consolidated financial statements:

	<u>31 December 2008</u>		<u>31 December 2007</u>	
	<u>Fair value</u>	<u>Net carrying amount</u>	<u>Fair value</u>	<u>Net carrying amount</u>
Financial Assets				
Long term loans	748,342	748,342	2,140,016	2,280,166
Short term loans	55,418	55,418	678,027	678,027
Trade and other receivables	2,590,145	2,590,145	3,453,783	3,453,783
Cash and cash equivalents	488,692	488,692	766,726	766,726
Financial Liabilities				
Long-term debt (bonds)	3,629,820	3,672,217	3,674,800	4,017,170
Short-term debt (bonds)	3,866,167	3,866,167	4,976,760	5,200,000
Short-term borrowings	1,311,817	1,311,817	2,071,254	2,071,254
Trade and other current liabilities	8,568,908	8,568,908	5,873,153	5,873,153

The fair value of long-term debt is the market value of the Group's bonds traded on the market. Fair values of cash and cash equivalents, trade and other receivables and short-term borrowings, trade and other payables approximate their carrying amounts due to their short maturity.

36. Subsequent Events

On January 15, 2009, the Group signed a credit agreement with Sberbank Rossii OJSC. The amount of the credit line is RR 4,000,000. The purpose of the credit was to refinance the second bonds issue.

On February 18 and March 24, 2009, the Group acquired RR 3,985,469 bonds of its second bonds issue. 14,531 bonds of the second issue remain on the market.