X5 Retail Group N.V.

International Financial Reporting Standards
Consolidated financial statements and
Independent Auditor's Report

31 December 2007

Contents

DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of X5 Retail Group N.V. and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards as adopted by the European Union.

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were approved on 10 April 2008 by:

Lev Khasis	**Evgeny Kornilov**
Chief Executive Officer	Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Management Board of X5 Retail Group N.V.:

1 We have audited the accompanying consolidated financial statements of X5 Retail Group N.V. and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

10 April 2008
Moscow, Russian Federation

(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,988,391	1,265,833
Investment property	12	129,006	40,020
Goodwill	13	2,934,216	2,629,046
Intangible assets	14	523,533	492,259
Prepaid leases		54,846	9,440
Loan originated to related parties	9	-	5,250
Other non-current assets		2,534	-
Deferred tax assets	31	28,357	18,626
		5,660,883	4,460,474
Current assets			
Inventories of goods for resale	15	325,036	208,576
Available for sale financial assets	18	-	623
Derivative financial assets	18	1,500	-
Loans originated		248	10,985
Current portion of non-current prepaid lease		5,766	-
Trade and other accounts receivable	16	149,137	148,225
Current income tax receivable		4,622	6,161
VAT and other taxes recoverable	17	195,752	89,434
Cash	10	179,496	167,988
		861,557	631,992
Total assets		**6,522,440**	**5,092,466**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	22	70,883	70,936
Share premium		2,896,355	2,901,350
Cumulative translation reserve		294,169	79,459
Accumulated deficit		(17,960)	(161,708)
Minority interests		220	-
Total equity		**3,243,667**	**2,890,037**
Non-current liabilities			
Long-term borrowings	20	1,464,684	949,123
Long-term finance lease payable	21	1,181	2,913
Deferred tax liabilities	31	214,101	177,604
Long-term deferred revenue		3,221	4,117
Share-based payments liability	30	43,208	-
Other non-current liabilities		-	159
		1,726,395	1,133,916
Current liabilities			
Trade accounts payable		968,505	552,060
Short-term borrowings	20	253,733	218,013
Share-based payments liability	30	2,389	69,990
Short-term finance lease payables	21	2,145	2,271
Interest accrued		2,763	13,544
Short-term deferred revenue		4,943	414
Current income tax payable		33,303	11,511
Provisions and other liabilities	19	284,597	200,710
		1,552,378	1,068,513
Total liabilities		**3,278,773**	**2,202,429**
Total equity and liabilities		**6,522,440**	**5,092,466**

Lev Khasis	Evgeny Kornilov
Chief Executive Officer	Chief Financial Officer
10 April 2008	10 April 2008

The accompanying Notes on pages 6 to 56 are an integral part of these consolidated financial statements.

X5 Retail Group N.V.
Consolidated Income Statement
for the year ended 31 December 2007
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2007	31 December 2006
Revenue	24	5,320,424	2,803,351
Cost of sales		(3,916,493)	(2,041,702)
Gross profit		**1,403,931**	**761,649**
Selling, general and administrative expenses		(1,135,046)	(630,817)
Lease/sublease and other income	26	68,032	36,879
Operating profit		**336,917**	**167,711**
Finance costs	27	(133,019)	(62,952)
Finance income	27	7,230	1,432
Net foreign exchange gain	28	31,545	14,083
Profit before tax		**242,673**	**120,274**
Income tax expense	31	(98,925)	(36,062)
Profit for the year		**143,748**	**84,212**
Attributable to:			
Equity holders of the parent		143,748	84,212
Profit for the year		**143,748**	**84,212**
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	23	2.70	2.13
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	23	2.69	2.12

Lev Khasis
Chief Executive Officer
10 April 2008

Evgeny Kornilov
Chief Financial Officer
10 April 2008

(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2007	31 December 2006
Profit before tax		**242,673**	**120,274**
Adjustments for:			
Depreciation and amortisation	25	142,376	79,097
Loss / (gain) on disposal of property, plant and equipment		137	(4,241)
Loss on disposal of intangible assets		35	38
Finance costs, net	27	125,789	61,520
Impairment of trade and other accounts receivable	25	1,369	4,073
Loss on disposal of subsidiaries		-	110
Share-based payments expense	30	43,208	27,702
Amortisation of deferred expenses		2,929	1,535
Loss on write-off of other long-term investments		-	400
Net foreign exchange gain	28	(67,195)	(14,083)
Net cash from operating activities before changes in working capital		**491,321**	**276,425**
Increase in trade and other accounts receivable		(65,107)	(61,855)
Increase in inventories		(77,041)	(76,773)
Increase in trade payable		330,154	235,617
(Decrease) / Increase in other accounts payable		(48,234)	52,694
Net cash generated from operations		**631,093**	**426,108**
Interest paid		(109,177)	(63,843)
Interest received		3,380	687
Income tax paid		(97,824)	(46,076)
Net cash from operating activities		**427,472**	**316,876**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(620,233)	(250,706)
Purchase of investment property	12	(9,173)	(5,936)
Non-current prepaid lease		(46,543)	(6,836)
Acquisition of subsidiaries, net of cash acquired	8	(211,412)	227,932
Acquisition of other long-term investments		(211)	(389)
Short-term loans issued in connection with acquisitions	8	(20,157)	-
Loans originated		-	(11,608)
Proceeds from sale of property, plant and equipment		10,949	13,125
Proceeds from sale of investments available for sale		-	66
Purchase of intangible assets	14	(1,987)	(6,594)
Net cash used in investing activities		**(898,767)**	**(40,946)**
Cash flows from financing activities			
Proceeds from short-term loans		583,917	204,060
Repayment of short-term loans		(396,016)	(207,232)
Proceeds from long-term loans		1,458,306	470,208
Repayment of long-term loans		(1,167,265)	(225,186)
Distribution to shareholders		-	(300,000)
Acquisition of treasury shares		(5,048)	(76,534)
Principal payments on finance lease obligations		(3,872)	(3,491)
Net cash from / (used in) financing activities		**470,022**	**(138,175)**
Effect of exchange rate changes on cash		12,781	166
Net increase in cash		**11,508**	**137,921**
Movements in cash			
Cash at the beginning of the year		167,988	30,067
Net increase in cash		11,508	137,921
Cash at the end of the year		**179,496**	**167,988**

Lev Khasis
Chief Executive Officer
10 April 2008

Evgeny Kornilov
Chief Financial Officer
10 April 2008

(expressed in thousands of US Dollars, unless otherwise stated)

		Attributable to the shareholders of the Company						Minority interest	Total
	Note	Number of shares	Share capital	Share premium	Cumulative translation reserve	Retained earnings / (Accumulated deficit)	Total shareholders' equity		
Balance as at 1 January 2006		**38,306,785**	**30**	**122,152**	**5,724**	**54,080**	**181,986**	**-**	**181,986**
Translation movement		-	-	-	73,735	-	73,735	-	73,735
Profit for the year		-	-	-	-	84,212	84,212	-	84,212
Total recognised income for the year		-	-	-	73,735	84,212	157,947	-	157,947
Reverse acquisition		15,813,253	72,109	2,854,529	-	-	2,926,638	-	2,926,638
Distribution to shareholders (Note 22)		-	-	-	-	(300,000)	(300,000)	-	(300,000)
Acquisition of treasury shares		(902,278)	(1,203)	(75,331)	-	-	(76,534)	-	(76,534)
Balance as at 31 December 2006		**53,217,760**	**70,936**	**2,901,350**	**79,459**	**(161,708)**	**2,890,037**	**-**	**2,890,037**
Translation movement		-	-	-	214,710	-	214,710	-	214,710
Profit for the year		-	-	-	-	143,748	143,748	-	143,748
Total recognised income for the year		-	-	-	214,710	143,748	358,458	-	358,458
Acquisition of treasury shares		(40,000)	(53)	(4,995)	-	-	(5,048)	-	(5,048)
Acquisition of subsidiaries	8	-	-	-	-	-	-	220	220
Balance as at 31 December 2007		**53,177,760**	**70,883**	**2,896,355**	**294,169**	**(17,960)**	**3,243,447**	**220**	**3,243,667**

Lev Khasis
Chief Executive Officer
10 April 2008

Evgeny Kornilov
Chief Financial Officer
10 April 2008

(expressed in thousands of US Dollars, unless otherwise stated)

1 PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries, as set out in Note 7 (the "Group"). These consolidated financial statements are prepared separately from the statutory accounts of the Company which are filed in authorities in the Netherlands.

X5 Retail Group N.V. is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as a holding company for the group of companies that operate retail grocery stores. The Company's address and tax domicile is Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.

On 18 May 2006, the Company acquired 100% of Perekrestok Holdings Ltd., the parent company for the group of companies that operate stores under the "Perekrestok" brand (Note 8). Although legally X5 Retail Group N.V. is regarded as the parent and Perekrestok Holdings Ltd. is regarded as the subsidiary, Perekrestok Holdings Ltd. is identified as the acquirer under IFRS 3 "Business Combinations" and the acquisition of Perekrestok Holdings Ltd. is accounted for as a reverse acquisition (Note 2.1). Consequently, through the period ended 18 May 2006 consolidated statement of income and consolidated statement of cash flows relate only to the acquirer (Note 8).

The main activity of the Group is the development and operation of grocery retail stores. As of 31 December 2007 and 31 December 2006 the Group operated a retail chain of soft-discount and supermarket stores under the brand names "Pyaterochka" and "Perekrestok" in major population centers in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Krasnodar, Kazan, Samara, Chelyabinsk, Ekaterinburg and Kiev, Ukraine with the following number of stores:

	31 December 2007	31 December 2006
Supermarket		
Moscow	105	101
N Novgorod	18	16
Samara	8	6
North-West	19	17
Tatarstan	5	2
Ukraine	5	4
Central-Chernozem	11	4
South	8	6
	179	**156**
Discounter		
Moscow	309	222
N Novgorod	18	-
Samara	5	-
North-West	244	204
Ekaterinburg	34	25
Central-Chernozem	15	-
Chelyabinsk	49	-
	674	**451**
Hypermarket		
West Siberia	1	1
Moscow	4	4
N Novgorod	2	1
Samara	2	1
Tatarstan	3	3
Central-Chernozem	2	1
South	1	1
	15	**12**
Total stores	**868**	**619**

1 PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE (continued)

In addition, as of 31 December 2007 the Group's franchisees operated 680 stores under the "Pyaterochka" brand name and 8 stores under the "Perekrestok" brand name (31 December 2006: 605 and 10 respectively) in Russia and neighbouring countries, Kazakhstan and Ukraine.

The Group is a member of the Alfa Group Consortium. As of 31 December 2007 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited owning 26.2% and 22.2% of total issued shares, respectively. The Group owns 942,278 (1.74%) of its shares (Note 22). As of 31 December 2007 the Company's shares are listed on the London Stock Exchange in form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share. As of 31 December 2007 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), a company registered at Suite 2, 4 Irish Place, Gibraltar. CTF is under the common control of Mr Fridman, Mr Khan and Mr Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2007 have been prepared in accordance with, and comply with International Financial Reporting Standards as adopted by the European Union. They have been prepared under the historical cost convention as modified by available-for-sale investments, derivative financial investments and share-based payments liability.

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the European Union through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39, *Financial Instruments: Recognition and Measurement,* on portfolio hedging. Since the Group is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying consolidated financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

These consolidated financial statements are issued under the name of X5 Retail Group N.V. but represent a continuation of the consolidated financial statements of Perekrestok Holdings Ltd. accordingly:

(a) the assets and liabilities of the legal subsidiary, i.e. Perekrestok Holdings Ltd., are recognised and measured at their pre-combination carrying amounts. The assets and liabilities of X5 Retail Group N.V. are recognised at their fair value at the date of acquisition;

(b) the consolidated retained earnings and other equity balances recognised at the date of acquisition are the retained earnings and other equity balances of Perekrestok Holdings Ltd. immediately before the business combination;

(c) the equity structure reflects the equity structure of X5 Retail Group N.V.; and

(d) the comparative information presented in these consolidated financial statements is that of Perekrestok Holdings Ltd.

2.2 Accounting for the effects of inflation

The Russian Federation was considered hyperinflationary prior to 1 January 2003. As a result, balances and transactions were restated for the changes in the general purchasing power of the Russian Rouble up to 31 December 2002 in accordance with IAS 29 (“Financial Reporting in Hyperinflationary Economies”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003, the Group does not apply the provisions of IAS 29 to assets acquired or revalued and liabilities incurred or assumed after that date. For other assets and liabilities, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

2.3 Consolidated financial statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Consolidated financial statements (continued)

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when a business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which acquirer obtains control of the subsidiary.

The Group accounts for options to acquire subsidiaries in business combinations at cost.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the Group's share in net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost (”negative goodwill”) is recognized immediately in the income statement.

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

2.4 Minority interest

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

When the Group purchases a minority interest, the difference between its carrying amount and the amount paid to acquire it is recorded as goodwill. Gains or losses on disposal of a minority interest, determined as the difference between its carrying amount and proceeds received or receivable, are recorded in the statement of income.

2.5 Foreign currency translation and transactions

(a) Functional and presentation currency

Functional currency. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's entities are the national currency of the Russian Federation, Russian Rouble (“RR”) and the national currency of Ukraine, Ukrainian Hryvnia (“UAH”). The Group's presentation currency is the US Dollar (“USD”), which management believes is the most useful currency to adopt for users of these consolidated financial statements.

Translation from functional to presentation currency. The results and financial position of each Group entity (none of which have a functional currency that is the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rates at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity as a cumulative translation reserve.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation and transactions (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recognized in profit or loss. Translation at period-end rates does not apply to non-monetary items.

At 31 December 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 24.5462 (31 December 2006: USD 1 = RR 26.3311). Average rate for year ended 31 December 2007 was USD 1 = RR 25.577 (12 months 2006: USD 1 = RR 27.1852).

At 31 December 2007, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 5.0500 (31 December 2006: USD 1 = UAH 5.0500). Average rate for 12 months 2007 was USD 1 = UAH 5.0500 (12 months 2006: USD 1 = UAH 5.0500).

2.6 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of its revenue earned from sales to external customers and whose internal and external revenue or result or assets are ten percent or more of all segments are reported separately. The Group identifies business segments as its primary segment reporting format while geographical segments are its secondary segment reporting format.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. The Group does not capitalize borrowing costs but recognises them as an expense in the period in which they are incurred.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of property, plant and equipment or part's estimated useful life whichever is sooner.

At each reporting date management assesses whether there is any indication of impairment of property, plant 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 impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a favourable change in circumstances affecting estimates used to determine the asset's value in use or fair value less costs to sell.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

Buildings	20-50 years
Machinery and equipment	5-10 years
Refrigerating equipment	7-10 years
Vehicles	5-7 years
Other	3-5 years

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Company and the cost can be measured reliably. The capitalised leasehold improvements are depreciated over their useful lives but not longer than the terms of the leases.

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

2.8 Investment property

Investment property consists of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of an owned shopping center that is leased to third party retailers as investment property, unless it represents an insignificant portion of the property and is used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. The Group uses the ratio of leased out space to total store space as criteria to distinguish investment property from Group-occupied property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 20-50 years.

2.9 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on the acquisition of subsidiaries is presented as part of intangible assets in the consolidated balance sheet.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

(b) Lease rights

Lease rights represent rights for favourable operating leases acquired in business combinations. Lease rights acquired in a business combination are recognised initially at fair value. Lease rights are amortised using the straight-line method over the lease term of the respective lease contracts – ranging from 10 to 20 years (15 on average).

(c) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Brand and private labels are amortised using the straight-line method over their useful lives:

	Useful lives
Brand	20 years
Private labels	5-8 years

(d) Franchise agreements

Franchise agreements represent rights to receive royalties. Franchise agreements acquired in a business combination are recognised initially at fair value. Franchise agreements are amortised using straight-line method over their useful lives that are, on average, ranging from 5 to 10 years (8 on average).

(e) Other intangible assets

Expenditure on acquired patents, trademarks and licenses is capitalized and amortised using the straight-line method over their useful lives ranging from 3 to 4 years.

(f) Impairment of intangible assets

Where an indication of impairment exists, the recoverable amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever impairment indicators exist.

2.10 Operating leases

Leases of assets under which substantially all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

An asset leased out by the Group under operating leases is included in investment property in the balance sheet, unless it represents an insignificant portion of property and is used primarily to provide auxiliary services to retail customers not provided by the Group, rather than to earn rental income. It is depreciated over its expected useful life on a basis consistent with similar fixed assets and investment property. Rental income is recognised in the income statement on a straight-line basis over the lease term.

The Group leases retail outlets under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are classified as minimum lease payments (Note 35).

Initial direct costs incurred by the Group in negotiating and arranging an operating lease including key money paid to lessors or previous tenants for entering into lease contracts are recognised as prepaid leases and expensed on a straight-line basis over the lease term.

2.11 Finance lease liabilities

Where the Group is a lessee in a lease, which transfers substantially all the risks and rewards incidental to ownership to the Group, the leased assets are capitalized in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases as well as leasehold improvements are depreciated over their useful life or the lease term, if shorter and if the Group is not reasonably certain that it will obtain ownership by the end of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Trade receivables

Trade receivables are initially recognised at their fair values and are subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group determines that there is objective evidence of impairment by assessing groups of receivables against credit risk factors established based on historical loss experience for each group. Indications that the trade receivable may be impaired include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

2.13 Inventories of goods for resale

Inventories at warehouses and retail outlets are stated at the lower of cost and net realizable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the first-in, first-out (FIFO) method. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales.

2.14 Financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. The Group designates investments as available-for-sale only when they fall outside the other categories of financial assets.

Initial recognition of financial instruments

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

Impairment

The Group reviews the carrying value of its financial assets on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the Group records an impairment loss and reduces the carrying amount of assets by using allowance account. The Group does not reduce the carrying amount of impaired financial assets directly but rather uses an allowance account.

Derecognition of financial assets

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial assets and liabilities (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are mainly derivatives.

Derivative financial instruments are recognised initially on a settlement date basis and subsequently remeasured at fair value. The Group generally acquires derivative financial instruments quoted at active markets and therefore subsequent remeasurement is based on active market quotations rather than valuation techniques. Gains and losses resulting from the fair value remeasurement are recognised in the consolidated income statement as fair value gains (losses) on financial instruments. Derivative financial instruments include foreign exchange contracts, forward rate agreements, interest rate swaps and currency options are carried as trading assets or liabilities at fair value through profit or loss. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group does not apply hedge accounting.

Loans and receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Receivables are written off only in case of debtor’s insolvency.

Available for sale

Available for sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group’s right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period’s profit or loss.

Financial liabilities are classified according to the substance of the contractual arrangements entered into the following measurement categories: (a) financial derivatives and (b) other financial liabilities. Financial derivatives are carried at fair value with changes in value recognised in the consolidated income statement in the period in which they arise. Other financial are carried at amortised cost.

2.15 Cash

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

2.17 Value added tax

Value added tax related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project can not be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Value added tax (continued)

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.18 Employee benefits

Wages, salaries, bonuses, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by the employees of the Group. The Group's entities contribute to the Russian Federation's state pension and social insurance funds in respect of its employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2.19 Share-based payments

The Group issues options to certain employees that give the employees the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments.

Share-based payment transactions, or the components of such transactions, are accounted for as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payments transactions are measured at the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to the cash or equity instruments were granted. The fair value is determined using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

A liability equal to the portion of the services received is recognised at the current fair value determined at each balance sheet date. The Group records an expense based on the fair value of options related to the shares expected to vest on a straight-line basis over the vesting period.

At the date of settlement, the Group will remeasure the liability to its fair value. If the Group issues equity instruments on settlement rather than paying cash, the liability will be transferred directly to equity, as the consideration for the equity instruments issued.

2.20 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.21 Trade and other payables

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

2.22 Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

2.23 Dividends

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Treasury shares

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

2.25 Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting period. Diluted earnings per share are calculated by adjusting the earnings and the number of shares for the effects of dilutive options.

For the purpose of calculating the weighted average number of ordinary shares outstanding during the period in which the reverse acquisition occurs:

- the number of ordinary shares outstanding from the beginning of that period to the acquisition date is the number of ordinary shares issued by the legal parent to the owners of the legal subsidiary

- the number of ordinary shares outstanding from the acquisition date to the end of that period is the actual number of ordinary shares of the legal parent outstanding during that period.

2.26 Taxes

Current income tax liabilities (assets) are measured in accordance with IAS 12, *Income Taxes*, based on legislation that is enacted or substantively enacted at the balance sheet date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. 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. In accordance with the initial recognition exemption, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the balance sheet date.

Taxes other than on income, interest and penalties are measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent.* The Group provides against tax contingencies and the related interest and penalties where management can make a reliable estimate of the amount of the additional taxes that may be due. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and considered as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for such taxes, interest and penalties are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date (Notes 31and 35).

2.27 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. Recognition of the principal types of income and expenses is as follows:

(a) Revenue

Revenue from the sale of goods through retail outlets is recognised at the point of sale. Revenue from franchisee fees is recognised based on contractual agreements over the term of the contracts. The up-front non-refundable franchisee fees received by the Group are deferred and recognised over the standard contractual term of 10 years. Revenue from advertising services is recognised based on contractual agreements. Revenues are measured at the fair value of the consideration received or receivable. Revenues are recognised net of value added tax.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Income and expense recognition (continued)

The group launched a loyalty card scheme in 2007. Discounts earned by customers through loyalty cards, are recorded by the Group by allocating some of the consideration received from the initial sales transaction to the award credits and deferring the recognition of revenue. The allocation is made by the reference to the relative fair values of the components adjusted for expected forfeitures.

(b) Cost of sales

Cost of sales include the purchase price of the products sold and other costs incurred in bringing the inventories to the location and condition ready for sale, i.e. retail outlets. These costs include costs of purchasing, storing, rent, salaries and transporting the products to the extent it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of allowances from suppliers in the form of slotting fees, volume discounts, and other forms of payment. In accounting for supplier bonuses received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and are reported as part of the cost of sales.

Bonuses received from suppliers are recorded as a reduction in the price paid for the products and are recognised in cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables.

(c) Interest income and expense

Interest income and expense are recognised on an effective yield basis.

(d) Selling, general and administrative expenses

Selling expenses consist of salaries and wages of stores employees, store expenses, rent or depreciation of stores, utilities, advertising costs and other selling expenses. General and administrative expenses include costs of salaries and wages of support office employees, rent and depreciation of support offices, impairment and amortisation charges of non-current charges and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as incurred. The Group recognised start-up costs of stores as an expense in the period in which they are incurred.

2.28 Impairment of non-current assets other than goodwill

The Group periodically assesses whether there is any indication that non-current assets may be impaired. If any such indicators exist, the Group estimates the recoverable amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. Impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2.29 Fair value of assets and liabilities at the acquisition date

In November 2006, the Group acquired Merkado Group. Fair values of assets and liabilities were determined as at the date of acquisition. Management subsequently revised the allocation of fair values. As a result of the revision the final value of identifiable net assets as at the date of acquisition decreased. After the completion of the purchase price allocation the aggregate fair value of the acquired net assets changed by USD 6,097 and amounted to USD 4,367 (Note 8). Also the Group separately disclosed acquired investment property of USD 21,888 in the Merkado net assets (Note 12).

(expressed in thousands of US Dollars, unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 Reclassifications

Where necessary, corresponding figures have been adjusted to conform to changes in the presentation of the current year. The effect of reclassifications is as follows:

- The Group has disclosed Investment property (Note 12) separately from property, plant and equipment. In the year ended 31 December 2006 investment property in the amount of USD 40,020 was reclassified from property, plant and equipment to a separate line in the balance sheet out of which USD 21,888 relates to acquisition of Merkado (Note 2.29). Besides the effect of investment property acquired as a result of the Merkado acquisition, the investment property business was not material in 2006 and therefore the Group started disclosing it separately only in 2007.

- The Group changed the presentation of expenses reclassifying costs incurred in bringing the inventories to the location and condition ready for sale as cost of sales (Note 25). In the year ended 31 December 2006 expenses of USD 34,162 were reclassified from selling, general and administrative expenses to cost of sales.

Management of the Group believes that these reclassifications provide more relevant and meaningful information about the financial position of the Group.

As a consequence of the reclassifications the previously reported Balance Sheet and Income Statement for the year ended 31 December 2006 were changed.

Consolidated Balance Sheet

	31 December 2006 (adjusted)	31 December 2006
Property, plant and equipment	1,265,833	1,311,950
Investment property	40,020	-
Goodwill	2,629,046	2,622,949

Consolidated Income Statement

	2006 (adjusted)	2006
Cost of sales	(2,041,702)	(2,007,540)
Gross profit	761,649	795,811
Selling, general and administrative expenses	(630,817)	(664,979)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 35).

Property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 11). This estimate is based on projected product lifecycles and technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. In the current period no such indications exist and therefore no assets impairment testing was performed. In the opposite case, the Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the income statement.

Fair value of lease rights. The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of lease rights is based on the estimate of the market rates of the lease prepared by an independent valuation specialist (Note 14).

Inventory provisions. The Group provides for estimated inventory shrinkage on the basis of a historical shrinkage as a percentage of cost of sales (Note 15). This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results.

Provision for impairment of trade and other receivables. The Group determines an allowance for doubtful accounts receivable at the end of the reporting period (Note 16). In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectibility of the outstanding accounts receivable balances supplemented by the judgement of management to exclude the impact of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Classification of VAT. The terms of recovery of VAT depends on the registration of certain property, plant and equipment (Note 17).

Fair value of franchise agreements. The Group's management determines the fair value of franchise agreements acquired in business combinations. The assessment of the fair value of franchise agreements is based on the income method using discounted royalty payments during the period of the agreements (Note 14).

Fair value of brand and private labels. The Group' management determines the fair value of brand and private labels acquired in business combinations. The assessment of the fair value of a brand is based on the income approach using the relief-from-royalty method. The assessment of fair value of private labels is based on either the income method using discounted annual savings for the remaining useful life of the labels or the cost method (Note 14).

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of fair value less costs to sell or on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 13.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new standards and interpretations became effective for the Group from 1 January 2007. Unless otherwise described below, these new standards and interpretations do not significantly affect the Group's consolidated financial statements:

- ***IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures).*** The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Group added required disclosures to comply with IFRS 7 in these consolidated financial statements.
- ***IFRIC 7, Applying the Restatement Approach under IAS 29 (effective from 1 January 2007).*** The Interpretation clarifies the application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation under with IAS 29.
- ***IFRIC 8, Scope of IFRS 2 (effective from 1 January 2007).*** The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- ***IFRIC 9, Reassessment of Embedded Derivatives (effective for periods beginning on or after 1 June 2006 that is from 1 January 2007).*** The Interpretation clarifies that an entity should assess whether an embedded derivative should be accounted for separately from the host contract when the entity first becomes party to the contact.
- ***IFRIC 10 "Financial Reporting and Impairment" (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007).*** The interpretation clarifies that an entity should not reverse an impairment loss recognised in previous periods in respect of goodwill or an investment in a financial asset carried at cost. The interpretation is applicable for interim periods.

5 NEW ACCOUNTING PRONOUNCEMENTS

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

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

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or on the same basis as US GAAP (at fair value). The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

5 NEW ACCOUNTING PRONOUNCEMENTS (continued)

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. It is the policy of the Group to recognise deferred revenue on customer loyalty programme as a reduction of revenue, thus, this interpretation will have no impact on consolidated financial statements.

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

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

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

All of the above new standards and interpretations are not yet adopted by the European Union except for IFRS 8 and IFRIC 11.

(expressed in thousands of US Dollars, unless otherwise stated)

6 SEGMENT REPORTING

The Group has the following business segments:

	Retail trade	Other	Group
Year ended 31 December 2007			
Sales – external	5,295,091	25,333	5,320,424
Sales to other segments	-	-	-
Total revenue	**5,295,091**	**25,333**	**5,320,424**
Segment result	424,505	19,390	443,895
Unallocated expenses			(106,978)
Operating profit			**336,917**
Finance costs, net			(125,789)
Share of result of associates			-
Unallocated expenses			31,545
Profit before income tax			**242,673**
Income tax expense			(98,925)
Profit for the year			**143,748**
Capital expenditure	610,634	9,173	619,807
Depreciation and amortisation	132,730	9,646	142,376
Doubtful debtors expense	1,369	-	1,369
As at 31 December 2007			
Segment assets	6,291,212	192,823	6,484,035
Investment in associate			-
Current and deferred tax assets			28,357
Other unallocated assets			10,048
Total assets			**6,522,440**
Segment liabilities	968,505	-	968,505
Current and deferred tax liability			214,101
Other unallocated liabilities			2,096,167
Total liabilities			**3,278,773**

(expressed in thousands of US Dollars, unless otherwise stated)

6 SEGMENT REPORTING (continued)

	Retail trade	Other	Group
Year ended 31 December 2006			
Sales – external	2,791,532	11,819	2,803,351
Sales to other segments	-	-	-
Total revenue	2,791,532	11,819	2,803,351
Segment result	167,270	40,266	207,536
Unallocated expenses			(39,825)
Operating profit			167,711
Finance costs, net			(61,520)
Share of result of associates			-
Unallocated expenses			14,083
Profit before income tax			120,274
Income tax expense			(36,062)
Profit for the year			84,212
Capital expenditure	250,706	5,936	256,642
Depreciation and amortisation	73,750	5,347	79,097
Doubtful debtors expense	4,073	-	4,073
As at 31 December 2006			
Segment assets	4,950,017	106,965	5,056,982
Investment in associate			-
Current and deferred tax assets			18,626
Other unallocated assets			16,858
Total assets			**5,092,466**
Segment liabilities	552,060	-	552,060
Current and deferred tax liability			177,604
Other unallocated liabilities			1,472,765
Total liabilities			**2,202,429**

The Group has the following geographical segments:

	Russia	Other	Group
Year ended 31 December 2007			
Sales – external	5,288,118	32,306	5,320,424
Capital expenditure	616,018	3,789	619,807
As at 31 December 2007			
Segment assets	6,503,191	19,249	6,522,440
Year ended 31 December 2006			
Sales – external	2,776,748	26,603	2,803,351
Capital expenditure	255,872	770	256,642
As at 31 December 2006			
Segment assets	5,055,598	36,868	5,092,466

(expressed in thousands of US Dollars, unless otherwise stated)

7 SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2007 are as follows:

			Ownership (%)	
Company	**Country**	**Nature of operations**	**31 December 2007**	**31 December 2006**
Agroaspekt OOO	Russia	Retailing	100	100
Agroavto OOO	Russia	Logistic operator	100	100
Agrostar ZAO	Russia	Logistic operator	100	100
Agrotorg OOO	Russia	Retailing	100	100
Aliance Service OOO	Russia	Real estate	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
Beta Estate OOO	Russia	Real estate	100	100
Ceizer ZAO	Russia	Real estate	100	100
Center SPAR Ukraine ZAT	Ukraine	Retailing	100	100
Discount-Invest OOO	Russia	Retailing	100	100
Elicon OOO	Russia	Real estate	100	100
Metronom AG OOO	Russia	Real estate	100	100
Orient Nedvizhimost OOO	Russia	Real estate	100	100
Perekrestok-2000 OOO	Russia	Retailing	100	100
Perekrestok Holdings Ltd.	Gibraltar	Holding Company	100	100
Pyaterochka 2005 OOO	Russia	Real estate	100	100
Pyaterochka Finance OOO	Russia	Bonds issuer	100	100
Remtransavto ZAO	Russia	Real estate	100	100
Rubin OOO TK	Russia	Retailing	100	100
Set' Roznichnoy Torgovli OOO	Russia	Real estate	100	100
Sladkaya Zhizn N.N. OOO	Russia	Retailing	100	100
Speak Global Ltd.	Cyprus	Real estate and trade mark	100	100
Telprice OOO	Russia	Real estate	100	100
TH Perekrestok ZAO	Russia	Retailing	100	100
Ural-Agro-Torg OOO	Russia	Retailing	51	26*
Ural Retail OOO	Russia	Retailing	51	100
Uzhnyi OOO	Russia	Retailing	100	100

* control obtained from 1 January 2007 (Note 8)

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITION OF SUBSIDIARIES

Pyaterochka

On 18 May 2006, the Group acquired Pyaterochka Holding N.V. The acquisition was structured as follows:

- On 12 April 2006 and on 18 May 2006 the shareholders of Perekrestok Holdings Ltd. acquired 2,467,917 and 12,068,115 ordinary voting shares of Pyaterochka Holding N.V., respectively, for a cash consideration of USD 1,178,000.
- Pyaterochka Holding N.V. acquired 100% of the ordinary voting shares of Perekrestok Holdings Ltd. for 15,813,253 newly issued shares of Pyaterochka Holding N.V. and a cash consideration of USD 300,000.

On completion of the transaction, shareholders and other related parties of Perekrestok Holdings Ltd. obtained control over 56% of Pyaterochka Holding N.V. shares.

The cash consideration paid by Pyaterochka Holding N.V. for the shares of Perekrestok Holdings Ltd. is treated as a distribution of Perekrestok Holdings Ltd's retained earnings to its shareholders.

In the year ended 31 December 2006 the acquired business of Pyaterochka contributed revenue of USD 1,291,074 and net profit of USD 63,542 from the date of acquisition. If the acquisition of Pyaterochka had occurred on 1 January 2006, the Group's revenue for 2006 would have been USD 3,485,412 and the Group's profit for 2006 would have been USD 102,239.

In estimating effect of Pyaterochka contribution to revenue and net profit of the Group it is assumed that depreciation and amortization of fair valued property, plant and equipment and intangibles was evenly charged throughout the year.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, IFRS	**Fair values**
Cash and cash equivalents	327,504	327,504
Inventory of goods for resale	58,750	58,750
Trade and other accounts receivable	73,514	73,514
Intangible assets (Note 14)	1,451	438,661
Property, plant and equipment (Note 11)	524,873	638,209
Derivative financial asset	-	-
Long-term prepaid lease expenses	4,589	-
Deferred tax asset (Note 31)	1,633	1,633
Other assets	1,165	1,165
Short-term borrowings	(37,295)	(37,295)
Trade and other accounts payable	(257,307)	(252,307)
Provisions and liabilities for tax uncertainties (Note 35)	-	(30,000)
Long-term liability for share-based payments	(42,288)	(42,288)
Long-term borrowings	(544,034)	(557,165)
Non-current lease payable	(3,714)	(3,714)
Deferred tax liability (Note 31)	(9,110)	(136,989)
Net assets acquired	99,731	479,678
Goodwill (Note 13)		2,446,960
Total acquisition cost		2,926,638
Net cash inflow arising from the acquisition		**327,504**

The total acquisition cost is determined based on the published share price of the ordinary voting shares of Pyaterochka Holding N.V. on 12 April 2006, the exchange date, and represents the market capitalisation of Pyaterochka Holding N.V. on that date.

The non-cash component of the cost of acquisition of Pyaterochka was excluded from the consolidated statement of cash flows.

8 ACQUISITION OF SUBSIDIARIES (continued)

As a result of the business combination with Pyaterochka the Group obtained an option to acquire 100% of the shares of Formata Holding BV (a chain of hypermarkets operating under “Karusel” brand in Saint Petersburg). It is exercisable in the period from 1 January 2008 until 1 July 2008 at a price that is calculated based on the acquiree’s sales, EBITDA and debt. The Group has used multipliers to assign a fair value to the option rather than applying other valuation techniques. This is due to high volatility of the acquiree’s sales and EBITDA for the recent period that made the results of applying other valuation techniques highly dispersed. Due to significant uncertainties in estimation of the fair value which was also confirmed by an independent valuation specialist the Group concluded that the fair value of the option approximated zero at the acquisition date. Subsequently, the Group measures the option at cost.

Pyaterochka goodwill is justified by the following factors i) know how and developed technologies of Pyaterochka in retail business that contributed to the fact that it is one of the most profitable retailers in Russia, ii) qualified management team and staff of Pyaterochka, iii) expected cost and revenue synergies from the business combination, iv) business concentration v) business contacts acquired together with assets of Pyaterochka. Each of the factors contributed to the acquisition cost that results in the recognition of goodwill. However, these intangible assets are not separately recognised in the balance sheet of the Company because they are either not separable or there are no reliable bases for estimating their fair values.

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITION OF SUBSIDIARIES (continued)

Merkado

In November 2006, the Group acquired 100% of the voting shares of OAO Merkado Group and OOO Metronom AG for USD 101,061. OAO Merkado Group and OOO Metronom AG operate 17 retail grocery stores in Moscow.

In the year ended 31 December 2006 the acquired business of Merkado contributed revenue of USD 16,596 and net loss of USD 3,260 from the date of acquisition. If the acquisition of Merkado had occurred on 1 January 2006, the Group's revenue for 2006 would have been USD 2,869,407 and the Group's profit for 2006 would have been USD 71,194. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Merkado.

In estimating effect of Merkado contribution to revenue and net profit of the Group it is assumed that depreciation and amortization of fair valued property, plant and equipment and intangibles was evenly charged throughout the year.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, Russian GAAP*	Fair values
Cash and cash equivalents	1,488	1,489
Inventory of goods for resale	6,823	3,611
Trade and other accounts receivable	16,301	7,261
Intangible assets (Note 14)	40,976	34,974
Property, plant and equipment (Note 11)	29,730	93,870
Investment property (Note 12)	-	21,888
Other assets	1,239	1
Short-term borrowings	(3,740)	(3,740)
Trade and other accounts payable	(12,245)	(15,166)
Provisions and liabilities for tax uncertainties (Note 35)	-	(10,000)
Long-term borrowings	(99,376)	(99,376)
Deferred tax liability (Note 31)	434	(30,445)
Net assets acquired	(18,370)	4,367
Goodwill (Note 13)		96,694
Total acquisition cost		101,061
Net cash outflow arising from the acquisition		**99,572**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

The purchase consideration comprises cash and cash equivalents paid of USD 101,061.

For identification of fair values the Group engaged an independent valuation specialist. In estimating the fair values for the majority of Pyaterochka and Merkado's property, plant and equipment direct references to observable prices in an active market were used (market approach). However, where there was no active market providing reliable information of prices for certain items of property, plant and equipment, then the depreciated replacement cost approach was applied. Fair values of intangible assets were determined using the replacement cost or discounted cash flows methods. These valuation techniques were used since there is no reliable information for market transactions.

Several intangible assets cannot be separately recognised in the balance sheet of the Company because they are either not separable or there are no reliable bases for estimating their fair values. These intangible assets contributed to the recognition of the Merkado goodwill: i) business concentration in Moscow region ii) qualified management team of Merkado iii) expected cost synergies from the business combination.

Under the purchase agreement, the Group has an indemnity for all costs in excess of USD 1,000 that the Group may suffer, including claims in respect of any tax liability or indebtedness arising out of any matter that occurred prior to the date of completion of the acquisition, 17 November 2006, up to a limit of USD 20,000. Furthermore, if the aggregate amount of claims made by the Group to the sellers exceeds USD 20,000 the Group has an option to sell back 100% of the voting shares of the Merkado Group to the former shareholders. Management estimates that the cost and fair value of the option on the date of acquisition is insignificant. The option expired by the end of 2007.

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITION OF SUBSIDIARIES (continued)

Chelyabinsk

At 1 January 2007 the Group obtained control via contractual arrangements over OOO “Ural-Agro-Torg” and OOO “Leto”, entities of Chelyabinsk region. The Group increased its shareholding in OOO “Ural-Agro-Torg” and OOO “Leto” from 26% to 51% in exchange of 49% of shares of OOO “Ural-Retail” and OOO “Legion” (the fair value of the shares given as consideration to USD 220 as at the date of business combination).

In the year ended 31 December 2007 the acquired business of Chelyabinsk entities contributed revenue of USD 92,996 and net loss of USD 3,530 from the date of acquisition.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree’s carrying amount, Russian GAAP*	**Fair values**
Cash and cash equivalents	1,699	1,699
Inventory of goods for resale	4,441	4,296
Trade and other accounts receivable	4,466	1,994
Intangible assets (Note 14)	-	486
Property, plant and equipment (Note 11)	6,763	11,172
Derivative financial asset**	-	1,500
Deferred tax asset (Note 31)	-	694
Other assets	1,101	-
Short-term borrowings	(14,179)	(12,974)
Trade and other accounts payable	(8,558)	(10,406)
Deferred tax liability (Note 31)	-	(1,217)
Net assets acquired	(4,267)	(2,756)
Goodwill (Note 13)		7,697
Total acquisition cost		4,941
Net cash outflow arising from the acquisition		**3,242**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.
** under the Shareholders Agreement the Group also acquired an option to purchase the remaining 49% of the share capital of OOO “Ural-Agro-Torg” , OOO “Leto”, OOO “Ural-Retail” and OOO “Legion”.

The option is exercisable in the period from 1 January 2008 until 30 June 2009 at a price that is calculated based on the acquiree’s sales and debt. The Group considers change in the value of the option between the date of acquisition and the reporting date as insignificant.

The purchase consideration comprises cash and cash equivalents paid of USD 4,941.

The goodwill recognised is attributable to: i) the business concentration in Ural region and ii) expected cost synergies from the business combination.

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITION OF SUBSIDIARIES (continued)

Korzinka

In November 2007 the Group acquired 100% shareholding in OOO "Uzhnyi" operating the largest and fastest growing retail chain in the Lipetsk region under "Korzinka" brand. The Group acquired 22 stores in total, of which 15 will be integrated into the Group's discounter format, 6 into the supermarket format and one store will be added to the hypermarket network.

In the year ended 31 December 2007 the acquired business of Korzinka contributed revenue of USD 20,044 and net profit of USD 368 from the date of acquisition. If the acquisition of Korzinka had occurred on 1 January 2007, the Group's revenue for 2007 would have been USD 5,464,530 and the Group's profit for 2007 would have been USD 141,431. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Korzinka.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, Russian GAAP*	**Provisional values**
Cash and cash equivalents	992	992
Inventory of goods for resale	7,777	7,241
Trade and other accounts receivable	9,129	8,993
Intangible assets (Note 14)	-	25,293
Property, plant and equipment (Note 11)	23,562	37,289
Short-term borrowings	(7,098)	(7,098)
Trade and other accounts payable	(14,853)	(15,027)
Provisions and liabilities for tax uncertainties (Note 35)	-	(7,883)
Deferred tax liability (Note 31)	-	(9,365)
Net assets acquired	19,509	40,435
Goodwill (Note 13)		61,714
Total acquisition cost		102,149
Net cash outflow arising from the acquisition		**92,308**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

The Group assigned provisional values to net assets acquired. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 93,300 and deferred consideration of USD 8,849.

The goodwill recognised is attributable to: i) the business concentration in the Lipetsk region ii) expected synergetic effects and iii) favorable locations of retail outlets in Lipetsk city.

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITION OF SUBSIDIARIES (continued)

Strana Gerkulesia

In December 2007 the Group acquired 100% of the voting shares of OOO “Rubin TK” and OOO “RPH Nedvizhimost” operating retail grocery stores in Moscow and in the Moscow region under “Strana Gerkulesia” brand. The Group acquired a total of 29 discount stores, of which 26 are operational and three are scheduled for opening in 2008. Five stores are located in Moscow, 16 stores operate close to Moscow and eight stores are located in other areas of the Moscow region and in Tver region.

In the year ended 31 December 2007 the acquired business of Strana Gerkulesia did not contribute revenue and net profit to the Group. If the acquisition of Strana Gerkulesia had occurred on 1 January 2007, the Group’s revenue for 2007 would have been USD 5,402,032 and the Group’s profit for 2007 would have been USD 143,046. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Strana Gerkulesia.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree’s carrying amount, Russian GAAP*	**Provisional values**
Cash and cash equivalents	2,408	2,408
Investments available for sale	34	-
Inventory of goods for resale	8,252	3,975
Trade and other accounts receivable	29,754	5,467
Intangible assets (Note 14)	-	2,800
Property, plant and equipment (Note 11)	3,748	26,825
Short-term borrowings	(6,347)	(1,885)
Trade and other accounts payable	(14,012)	(10,547)
Provisions and liabilities for tax uncertainties (Note 35)	-	(7,677)
Deferred tax liability (Note 31)	-	(6,712)
Net assets acquired	23,837	14,654
Goodwill (Note 13)		46,773
Total acquisition cost		61,427
Net cash outflow arising from the acquisition		**59,019**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

In estimating provisional values of property and lease rights direct references to observable prices in an active market are used (market approach).

The Group assigned provisional values to net assets acquired. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 37,903 and loan of USD 23,524 originated to OOO “Rubin TK” at the moment of acquisition.

The goodwill recognised is attributable to: i) the business concentration in Moscow region and its neighboring areas and ii) expected cost synergies from the business combination.

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITION OF SUBSIDIARIES (continued)

Other acquisitions

In November the Group acquired several other companies. Their primary activity is operating of trade centers and earning rental income. No goodwill was recognised on these acquisitions. Details of assets and liabilities acquired are as follows:

In the year ended 31 December 2007 the acquired businesses of other acquisitions did not contribute significant revenue nor significant profit to the Group. If other acquisitions had occurred on 1 January 2007, the Group's revenue and profit would have not changed significantly. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of other acquired businesses.

	Acquiree's carrying amount, Russian GAAP*	**Provisional values**
Cash and cash equivalents	2,984	2,984
Loans originated	46	46
Inventory of goods for resale	1	1
Trade and other accounts receivable	2,923	2,923
Property, plant and equipment (Note 11)	20,946	43,314
Investment property (Note 12)	-	77,524
Short-term borrowings	(14,603)	(14,603)
Trade and other accounts payable	(3,251)	(3,250)
Long-term borrowings	(1,418)	(1,418)
Deferred tax liability (Note 31)	-	(22,287)
Net assets acquired	7,628	85,234
Total acquisition cost		85,234
Net cash outflow arising from the acquisition		**56,843**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition

The Group assigned provisional values to net assets acquired. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 59,827 and loans receivable of USD 25,407 out of which USD 20,157 were issued in 2007 and USD 5,250 issued in 2005.

(expressed in thousands of US Dollars, unless otherwise stated)

9 RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 are provided below. The ultimate controlling party is disclosed in Note 1.

Alfa Group

The following transactions were carried out with members or management of Alfa Group:

	Relationship	2007	2006
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,315	890
OAO "Alfa-Bank"	Under common control		
Interest expense on loans received		2,622	598
Bank charges		495	256
Rent revenue		208	-
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services rendered by VimpelCom to the Group		532	487
Commission for mobile phone payments processing rendered by the Group to VimpelCom		633	489
Golden Telecom	Under significant influence of CTF Holdings Ltd.		
Communication services received		2,010	1,645

Argonot and Argonot-B

In November 2007 the Group acquired 100% in share capital of OOO"Argonot" and "Argont-B". Their primary activity is operating of trade centers and earning rental income. No goodwill was recognised on these acquisitions. Details of assets and liabilities acquired are disclosed in Note 8. The purchase consideration comprises cash and cash equivalents paid of USD 39,556.

The consolidated financial statements include the following balances with members of the Alfa Group:

	31 December 2007	31 December 2006
Cash and cash equivalents		
OAO "Alfa-Bank"	10,684	20,173
Short-term loans payable		
OAO "Alfa-Bank"	2,649	16,400
Receivable from related party		
VimpelCom	102	109
Golden Telecom	159	252
OAO "Alfa-Bank"	225	-
Other accounts payable		
VimpelCom	18	6
CTF Holding Ltd.	-	256

(expressed in thousands of US Dollars, unless otherwise stated)

9 RELATED PARTY TRANSACTIONS (continued)

Alfa-Bank

The Group has an open credit line with Alfa-Bank. This credit line has a maximum limit of USD 150,000 and a floating interest rate. At 31 December 2007 the Group had USD 2,649 under this credit line at interest rate 9.88% p.a. (31 December 2006: 16,400) (Note 32) and therefore had available credit line of USD 147,351.

Other related parties

The following transactions were carried out with other related parties controlled by management of the Group:

ZAO "Novye Roznichnye Technologii"

The following transactions were carried out with ZAO "Novye Roznichnye Technologii":

	2007	2006
Operating lease expenses	1,249	881
Communication services	92	-

The consolidated financial statements include the following balances with ZAO "Novye Roznichnye Technologii":

	31 December 2007	31 December 2006
Accounts payable	145	152

OOO "Rusel" and OOO "Rusel M"
The following transactions were carried out with OOO "Rusel" and OOO "Rusel M":

	2007	2006
Outsourcing services provided by the Group	66	1,549
Rental income received by the Group	528	481

The consolidated financial statements include the following balances with OOO "Rusel" and OOO "Rusel M":

	31 December 2007	31 December 2006
Accounts receivable	228	504

OOO "Media 5" and OOO "Media 5M"
The following transactions were carried out with OOO "Media 5" and OOO "Media 5M":

	2007	2006
Advertising services provided by the Group	238	3,325

The consolidated financial statements include the following balances with OOO "Media 5" and OOO "Media 5M":

	31 December 2007	31 December 2006
Loans and receivables	52	115

The carrying value of loans and receivables approximates their fair value. Financial assets are not collateralised. None of the financial assets are either past due or impaired. The Group assesses credit quality of the investments as high.

(expressed in thousands of US Dollars, unless otherwise stated)

9 RELATED PARTY TRANSACTIONS (continued)

OOO "Makromir"

The following transactions were carried out with OOO "Makromir":

	Year ended 31 December 2007	Year ended 31 December 2006
Construction services provided to the Group	1,512	761

The consolidated financial statements include the following balances with OOO "Makromir":

	31 December 2007	31 December 2006
Loans and receivables	742	642

The carrying value of loans and receivables approximates their fair value. Financial assets are not collateralised. None of the financial assets are either past due or impaired. The Group assesses credit quality of the investments as high.

Donette Investments Limited

At 31 December 2006 the Group recorded a long-term loan issued to Donette Investments Limited in the amount of USD 5,250 with an interest rate of 10% p.a. In 2007 the Group converted its loan into 30% in the share capital of Donette Investments Limited and subsequently purchased the remaining of 70% in the share capital. Provisional net assets of Donette Investments Limited acquired are USD 45,678 at the date of acquisition. No goodwill was recognised on this acquisition. The purchase consideration comprises cash and cash equivalents paid of USD 20,272 and loans receivable of USD 25,407. The details of the acquisition of Donette Investments Limited are disclosed in Note 8 as part of Other acquisitions.

Multiserve Holdings Limited

The Group entered into an agreement with Multiserve Holdings Limited for payment of the commission directly attributable to acquisition of property, plant and equipment. The commission of USD 1,200 was paid upon completion of the mentioned transaction.

Key management personnel compensation

Key management personnel compensation is disclosed in Note 29.

10 CASH

	31 December 2007	31 December 2006
Cash in hand – Roubles	12,197	6,207
Cash in hand – Ukrainian Hryvnia	137	86
Bank current account – Roubles	46,525	61,740
Bank current account – Ukrainian Hryvnia	177	164
Bank current accounts and deposits – US Dollars	2,741	32,075
Cash in transit – Roubles	112,264	54,715
Cash in transit – Ukrainian Hryvnia	754	354
Short term deposits and other cash equivalents	4,701	12,647
	179,496	**167,988**

The bank accounts represent current accounts with an effective interest rate of nil. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

The Group assesses credit quality of outstanding cash and cash equivalents balances as high and considers that there is no significant individual exposure. Maximum exposure to credit risk at the reporting date is the carrying value of cash and bank balances.

(expressed in thousands of US Dollars, unless otherwise stated)

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Refrigera-ting equipment	Vehicles	Other	Construc-tion in progress	Total
Cost:							
At 1 January 2006	212,996	80,375	23,522	2,002	12,022	50,165	381,082
Additions	63,552	31,306	2,468	1,601	4,566	147,213	250,706
Transfers	93,306	11,894	19,750	3,826	41,996	(170,772)	-
Assets from acquisitions (Note 8)	463,298	12,880	40,048	5,951	32,789	177,113	732,079
Disposals	(13,529)	(3,742)	(476)	(1,088)	(2,003)	(140)	(20,978)
Disposal of subsidiaries	-	(121)	-	-	(18)	-	(139)
Translation movement	35,687	9,157	3,822	398	3,157	5,499	57,720
At 31 December 2006	855,310	141,749	89,134	12,690	92,509	209,078	1,400,470
Additions	144,547	825	4,363	1,143	16,675	443,081	610,634
Transfers	350,347	31,082	23,614	14,453	12,327	(431,823)	-
Assets from acquisitions (Note 8)	104,180	1,063	2,206	107	9,064	1,980	118,600
Disposals	(5,295)	(971)	(2,090)	(277)	(6,031)	(2,407)	(17,071)
Translation movement	81,098	12,534	7,272	2,237	6,609	14,088	123,838
At 31 December 2007	1,530,187	186,282	124,499	30,353	131,153	233,997	2,236,471
Accumulated depreciation:							
At 1 January 2006	(24,389)	(27,381)	(9,844)	(366)	(6,159)	-	(68,139)
Charge for the year	(20,231)	(16,747)	(6,029)	(1,362)	(14,430)	-	(58,799)
Disposals	1,453	3,225	302	326	52	-	5,358
Disposal of subsidiaries	-	120	-	-	18	-	138
Translation movement	(4,184)	(2,363)	(1,298)	(128)	(5,222)	-	(13,195)
At 31 December 2006	(47,351)	(43,146)	(16,869)	(1,530)	(25,741)	-	(134,637)
Charge for the year	(48,954)	(22,504)	(16,294)	(1,354)	(17,945)	-	(107,051)
Disposals	193	1,873	284	64	1,632	-	4,046
Translation movement	(3,105)	(4,307)	(609)	(103)	(2,314)	-	(10,438)
At 31 December 2007	(99,217)	(68,084)	(33,488)	(2,923)	(44,368)	-	(248,080)
Net book value at 31 December 2007	**1,430,970**	**118,198**	**91,011**	**27,430**	**86,785**	**233,997**	**1,988,391**
Net book value at 31 December 2006	**807,959**	**98,603**	**72,265**	**11,160**	**66,768**	**209,078**	**1,265,833**
Net book value at 31 December 2005	**188,607**	**52,994**	**13,678**	**1,636**	**5,863**	**50,165**	**312,943**

(expressed in thousands of US Dollars, unless otherwise stated)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

Construction in progress predominantly relates to the development of stores through the use of sub-contractors.

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 35). Certain land leases are prepaid for the 49 year term. Such prepayments are presented as non-current prepaid leases in the balance sheet and amount to USD 54,846 (31 December 2006: USD 9,440).

The Group leases certain assets under finance leases (Note 21). At 31 December 2007 and 31 December 2006 the net book value of the property, plant and equipment held under finance lease arrangements was:

	31 December 2007	31 December 2006
Gross book value:		
Vehicles	3,106	2,699
Refrigerating equipment	8,931	9,150
	12,037	11,849
Accumulated depreciation:		
Vehicles	(608)	(567)
Refrigerating equipment	(2,842)	(1,873)
	(3,450)	(2,440)
Net book value of property, plant and equipment obtained under finance lease arrangements	**8,587**	**9,409**

Refer to Note 20 for property, plant and equipment pledged as collateral for borrowings.

12 INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2007 and 31 December 2006:

Cost:	**2007**	**2006**
Cost at 1 January	41,446	12,166
Additions	9,173	5,936
Assets from acquisitions (Note 8)	77,524	21,888
Translation movement	4,452	1,456
Cost at 31 December	132,595	41,446
Accumulated depreciation:		
Accumulated depreciation at 1 January	(1,426)	(511)
Charge for the year	(1,976)	(840)
Translation movement	(187)	(75)
Accumulated depreciation at 31 December	(3,589)	(1,426)
Net book value at 31 December	**129,006**	**40,020**
Net book value at 1 January	**40,020**	**11,655**

Rental income from investment property amounted to USD 9,861(2006: USD 5,182). Direct operating expenses incurred by the Group in relation to investment property in the year ended 31 December 2007 were USD 6,158 (2006: USD 1,474).

Management estimates that the fair value of investment property at 31 December 2007 amounted to USD 179,065 (31 December 2006: USD 48,322).

Fair value represents the price at which a property could be sold to a knowledgeable, willing party and has generally been determined using the comparative valuation approach. The Group did not engage an independent valuation specialist to assess the fair value of investment properties.

(expressed in thousands of US Dollars, unless otherwise stated)

13 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2007 and 31 December 2006 are:

	2007	2006
Cost:		
Gross book value at 1 January	2,629,046	24,153
Acquisition of subsidiaries (Note 8)	116,184	2,543,654
Translation to presentation currency	188,986	61,239
Gross book value at 31 December	2,934,216	2,629,046
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	-	-
Accumulated impairment losses at 31 December	-	-
Carrying amount at 31 December	**2,934,216**	**2,629,046**
Carrying amount at 1 January	**2,629,046**	**24,153**

Goodwill Impairment Test

Goodwill is monitored for internal management purposes at the segment level being the retail trading in Russia (CGU).

Goodwill is tested for impairment at the CGU level by comparing carrying values of CGU assets including allocated goodwill to their recoverable amounts. The recoverable amount of CGU is determined as the higher of fair value less cost to sell or value in use.

Fair value less costs to sell

The Group defines fair value less costs to sell of the CGU by reference to an active market, i.e. as a market capitalization of the Group on the London stock exchange, since the Group's activities other than retail trade in Russia insignificantly affects the fair value. For indication purposes fair value less costs to sell of the CGU will be lower than its carrying amount if the share price falls below the level of USD 61 per share. The market capitalization of the Group at 31 December 2007 of USD 7,763,953 significantly exceeded the carrying amount of the CGU.

Value in use

Discounted free cash flow approach, based on current acquisition valuation models, was utilized. For the period from 2007 until 2015 the free cash flows are based on the strategic plan as approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price indices as obtained from external resources and based on key performance indicators inherent to the strategic plan. The projections are made in the reporting currency of the Group and discounted at the Group weighted average cost of capital, 12% in US dollar nominal terms. The Group's management believes that all of its estimates are reasonable: they are consistent with the internal reporting and reflect management's best estimates. As the result of the assessment no impairment charge was recognised.

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

EBITDA growth rate	18.3%
Pre-tax discount rate	12.0%

Based on the results of the calculations and the applied assumptions the Group concluded that no impairment charge was required. If in the discounted free cash flow model applied for the purpose of goodwill impairment testing the EBITDA growth decreased by 1% the Group would need to reduce the value in use of goodwill by USD 88,334. Also if in the discounted free cash flow model applied for the purpose of goodwill impairment testing the pre-tax discount rate increased by 50 basis points the Group would need to reduce the value in use amount of goodwill by USD 263,476.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

(expressed in thousands of US Dollars, unless otherwise stated)

13 GOODWILL (continued)

Impairment Test

The fair value less cost to sell significantly exceeded the value in use of the CGU and, thus, was taken as the recoverable amount for the purpose of the impairment test. The recoverable amount of CGU exceeded its carrying amount therefore no impairment was recognised.

14 INTANGIBLE ASSETS

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost:					
At 1 January 2006	-	-	1,280	19,138	20,418
Additions	-	-	341	6,253	6,594
Acquisition of subsidiaries (Note 8)	323,526	69,866	4,034	76,209	473,635
Disposals	-	-	(38)	-	(38)
Translation movement	7,689	1,660	241	3,216	12,806
At 31 December 2006	331,215	71,526	5,858	104,816	513,415
Additions	310	-	450	-	760
Acquisition of subsidiaries (Note 8)	1,017	-	70	27,492	28,579
Disposals	(93)	-	(154)	-	(247)
Translation movement	26,110	5,201	388	6,755	38,454
At 31 December 2007	358,559	76,727	6,612	139,063	580,961
Accumulated amortisation:					
At 1 January 2006	-	-	(704)	(674)	(1,378)
Charge for the year	(10,348)	(4,507)	(1,854)	(2,749)	(19,458)
Translation movement	(86)	(74)	(122)	(38)	(320)
At 31 December 2006	(10,434)	(4,581)	(2,680)	(3,461)	(21,156)
Charge for the year	(17,982)	(7,670)	(3,060)	(4,637)	(33,349)
Disposals	-	-	119	-	119
Translation movement	(1,709)	(659)	(258)	(416)	(3,042)
At 31 December 2007	(30,125)	(12,910)	(5,879)	(8,514)	(57,428)
Net book value at 31 December 2007	**328,434**	**63,817**	**733**	**130,549**	**523,533**
Net book value at 31 December 2006	**320,781**	**66,945**	**3,178**	**101,355**	**492,259**
Net book value at 31 December 2005	**-**	**-**	**576**	**18,464**	**19,040**

15 INVENTORIES OF GOODS FOR RESALE

Inventories as of 31 December 2007 and 31 December 2006 comprise the following:

	31 December 2007	31 December 2006
Goods held for resale	333,730	210,543
Less: provision for shrinkage	(8,694)	(1,967)
	325,036	**208,576**

Refer to Note 20 for goods pledged as collateral for borrowings.

Inventory shrinkage recognised as cost of sales in the consolidated income statement amounted to USD 74,436 (2006: USD 28,906).

(expressed in thousands of US Dollars, unless otherwise stated)

16 TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2007	31 December 2006
Trade accounts receivable	61,881	38,442
Advances made to trade suppliers	11,333	12,478
Other receivables	25,259	32,411
Prepayments	53,970	67,717
Accounts receivable for franchise services	2,762	1,287
Receivables from related parties (Note 9)	1,508	1,622
Provision for impairment of trade and other receivables	(7,576)	(5,732)
	149,137	**148,225**

All classes of receivables are categorized as loans and receivables under IAS 39 classification.

The carrying amounts of the Group's trade and other receivables are primarily denominated in Russian Roubles.

Trade receivables

There are balances of USD 8,935 that are past due but not impaired as at 31 December 2007.

The ageing of these receivables based on days outstanding is as follows:

	31 December 2007	31 December 2006
2-6 months	5,542	4,204
Over 6 months	3,393	5,474
	8,935	**9,678**

Movements on the provision for impairment of trade receivables are as follows:

	2007	2006
At 1 January	(3,206)	(293)
Accrual of provision for receivables impairment	(3,871)	(2,796)
Release of provision for receivables impairment	1,618	-
Translation movement	(328)	(117)
At 31 December	**(5,787)**	**(3,206)**

The creation and release of provision for impaired receivables have been included in general and administrative costs in the income statement.

The individually impaired trade receivables mainly relate to debtors that expect financial difficulties or there is likelihood of the debtor's insolvency. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 December 2007	31 December 2006
3-6 months	281	2,040
Over 6 months	5,991	3,716
	6,272	**5,756**

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

Other receivables and receivables for franchise services

There are balances of USD 14,857 that are past due but not impaired as at 31 December 2007.

The ageing of these receivables based on days outstanding is as follows:

	31 December 2007	31 December 2006
2-6 months	14,321	5,951
Over 6 months	536	5,719
	14,857	**11,670**

(expressed in thousands of US Dollars, unless otherwise stated)

16 TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Movements on the provision for impairment of other receivables for the year ended 31 December 2007 are as follows:

	2007	2006
At 1 January	(2,526)	(1,263)
Accrual of provision for receivables impairment	(962)	(1,574)
Release of provision for receivables impairment	1,846	297
Translation movement	(147)	14
At 31 December	**(1,789)**	**(2,526)**

The creation and release of provision for impaired receivables have been included in general and administrative costs in the income statement.

The individually impaired other receivables mainly relate to debtors that expect financial difficulties or there is likelihood of the debtor's insolvency.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 December 2007	31 December 2006
3-6 months	834	1,346
Over 6 months	3,542	1,266
	4,376	**2,612**

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

17 VAT AND OTHER TAXES RECOVERABLE

	31 December 2007	31 December 2006
VAT recoverable	194,264	85,771
Other taxes receivable	1,488	3,663
	195,752	**89,434**

VAT recoverable related to property, plant and equipment of USD 45,466 (31 December 2006: USD 54,202) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. Timing of the VAT refund depends on the registration of certain property, plant and equipment, therefore there are risks that recovering the balance may take longer than twelve months.

(expressed in thousands of US Dollars, unless otherwise stated)

18 FINANCIAL ASSETS AND LIABILITIES

Available-for-sale financial assets include the following:

		31 December 2007	31 December 2006
Bank promissory notes	RUB	-	623

Changes in the fair value of securities classified as available for sale were insignificant during the year ended 31 December 2007 (2006: nil).

Derivative financial instruments

The Group recognised the following derivative financial instruments as at 31 December 2007:

	Financial assets at fair value through profit or loss		Financial liabilities at fair value through profit or loss	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Call option for 49% share in subsidiaries (Note 8)	1,500	-	-	-
	1,500	**-**	**-**	**-**

The maturity of derivative financial instruments is as follows:

	Assets	Liabilities
In 1 year or less	1,500	-

None of the financial assets are either past due or impaired.

19 PROVISIONS AND OTHER LIABILITIES

	31 December 2007	31 December 2006
Provisions and liabilities for tax uncertainties (Note 35)	75,671	55,773
Taxes other than income tax	38,727	21,836
Accrued salaries and bonuses	81,680	61,366
Payables to landlords	3,290	7,635
Other accounts payable and accruals	32,205	16,675
Accounts payable for services received	16,211	7,979
Accounts payable for property, plant and equipment	11,458	20,005
Advances received	25,355	9,441
	284,597	**200,710**

There are no significant amounts of foreign accounts payable as at 31 December 2007.

(expressed in thousands of US Dollars, unless otherwise stated)

20 BORROWINGS

	Currency	Interest rate, % p.a.	31 December 2007	31 December 2006
Short-term				
Current portion of Syndicated loan	USD	LIBOR+2.25% / 2.5%	-	112,000
Current portion of Perekrestok's bonds	RR	8.15%	122	56,725
Commerzbank	USD	LIBOR+1.4%	90,500	-
Barclays Bank Plc	RR	6.50%	122,219	-
Alfa-Bank	USD	9.88% / 6.9%-7.52%	2,649	16,400
UralSib Bank	USD	6.95%	-	12,760
Raiffeisenbank	USD	Mosprime + 1,2%	15,991	-
Raiffeisenbank overdraft	RR	7.19%-7.34%	-	6,266
Sberbank	RR	11.00%	-	11,431
AKB BIN Bank	RR	16.00%	-	2,279
Amsterdam Trade Bank N.V.	USD	LIBOR + 6%	14,660	-
Sberbank	RR	12.00%	1,222	-
Sberbank	RR	12.20%	1,833	-
Lipeczcombank	RR	13.00%	2,567	-
Other	RR		1,970	152
			253,733	218,013
Long-term				
Syndicated loan **	USD	LIBOR + 2.25% / 2.0%	1,083,226	-
Syndicated loan	USD	LIBOR 2.25% / 2.5%	-	788,016
Pyaterochka Finance's bonds – 1st issue	RR	11.45%	2,956	60,667
Pyaterochka Finance's bonds – 2nd issue	RR	9.30%	12,305	121,590
Perekrestok's bonds	RR	8.15%	-	56,725
Bank Petrocommerz	RR	11.00%	-	90,850
X5 Finance bonds *	RR	7.60%	364,763	-
Sberbank	USD	11.50%	1,422	-
Other loans	RR		12	-
Less:			-	
Current portion of Syndicated loan	USD	LIBOR+2.25% / 2.0%	-	(112,000)
Current portion of Perekrestok's bonds	RR	8.15%	-	(56,725)
			1,464,684	949,123
Total borrowings			**1,718,417**	**1,167,136**

* In July 2007 the Group placed RR 9,000 million (USD 350,172) bonds. The 7-year bonds pay semiannual coupons. Coupons 1 to 6 are equal and amount to 7.60% per annum, the rest to be defined by the Group later. The holders have right to ask for redemption of the bonds at par in 3 years. The funds raised by the bonds were used to refinance other outstanding bond issues of the Group.

** In December 2007 the Group raised syndicated a loan of USD 1,100,000 from a consortium of banks. The loan pays a margin of 2.25% per annum over LIBOR for the first year. Subsequently, the margin will move in accordance with a Net Debt/EBITDA grid with a maximum margin at the top of the grid of 2.0% per annum over LIBOR. LIBOR is repriced every quarter. The loan has a 3-year maturity. The Group has pledged as collateral for the syndicated loan 100% of voting shares, cash in the bank accounts and receivable accounts in its subsidiaries, including OOO "Agrotorg", OOO "Agroaspekt", Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO "TH "Perekrestok", OOO "Perekrestok-2000". The proceeds of the loan were used to refinance the bridge facility in the amount of USD 1,000,000 and for general corporate purposes.

All borrowings at 31 December 2007 are shown net of related transaction costs of USD 18,884 which are amortised over the term of loans using the effective interest method.

(expressed in thousands of US Dollars, unless otherwise stated)

20 BORROWING (continued)

The Group maintains optimal capital structure by tracing certain capital requirements based on the ratios included as covenants into loan agreements (Note 33). The new bridge facility includes the following covenants: maximum level of Debt/EBITDA is 4.25, minimum level of EBITDA/Interest expense is 3, minimum level of EBITDAR/Fixed costs is 2.25 and maximum level of capital expenditure.

21 OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain refrigerating equipment and vehicles under finance lease terms. The agreements expire in 2008-2009 and assume a transfer of ownership for the leased assets to the Group at the end of the lease term. The effective borrowing rate on lease agreements as of 31 December 2007 varies from 9.0% to 13.0% per annum on USD agreements and from 23.0% to 31.0% per annum on RR agreements. The fair value of the finance lease liability as of 31 December 2007 approximates its carrying amount.

Lease obligations of the Group as of 31 December 2007 and 31 December 2006 consisted of the following:

	Minimum lease payments		**Present value of minimum lease payments**	
	31 December 2007	**31 December 2006**	**31 December 2007**	**31 December 2006**
Amounts payable :				
Within one year	2,653	3,261	2,145	2,271
In the second to fifth years inclusive	1,355	3,879	1,181	2,913
	4,008	7,140	3,326	5,184
Less: future finance charges	(682)	(1,956)	N/A	N/A
Present value of minimum lease payments	**3,326**	**5,184**	**3,326**	**5,184**

22 SHARE CAPITAL

As described in Note 2.1 the equity structure of the Group represents the equity structure of X5 Retail Group N.V. As of 1 January 2006 the Company had 38,306,785 ordinary shares issued and fully paid. The nominal par value of each ordinary share is EUR 1. The Company has only one class of ordinary shares. As part of the acquisition (Note 8) in April 2006 the Group issued an additional 15,813,253 ordinary shares.

During 2007 the Group repurchased 40,000 ordinary shares (2006: 902,278 ordinary shares repurchased) for general corporate purposes, including funding the employees' share option program (ESOP) liabilities and potential acquisitions. As of 31 December 2007 the Group had 190,000,000 authorised ordinary shares of which 53,177,760 ordinary shares are outstanding. As of 31 December 2007 the fair value of outstanding shares amounted to USD 7,763,953 .

No dividends were paid or declared during the year ended 31 December 2007 or the year ended 31 December 2006 other than the USD 300,000 payment to former shareholders of Perekrestok Holdings Ltd. (Note 8).

(expressed in thousands of US Dollars, unless otherwise stated)

23 EARNINGS PER SHARE

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

Earnings per share are calculated as follows:

	2007	2006
Profit attributable to equity holders of the Parent	143,748	84,212
Weighted average number of ordinary shares in issue	53,214,212	39,492,210
Effect of share options granted to employees	143,894	298,272
Weighted average number of ordinary shares for the purposes of diluted earnings per share	53,358,106	39,790,482
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**2.70**	**2.13**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**2.69**	**2.12**

24 REVENUE

	2007	2006
Revenue from sale of goods	5,295,092	2,791,532
Revenue from franchise services	12,507	7,050
Revenue from other services	12,825	4,769
	5,320,424	**2,803,351**

25 EXPENSES BY NATURE

	2007	2006
Cost of product	3,846,268	2,007,540
Staff costs (Note 29)	556,255	302,552
Operating lease expenses	184,635	107,157
Other store costs	99,089	49,120
Depreciation and amortisation	142,376	79,097
Utilities	78,086	30,960
Other	144,830	96,093
	5,051,539	**2,672,519**

Operating lease expenses include USD 176,143 (2006: USD 105,799) of minimum lease payments and contingent rents of USD 8,492 (2006: USD 1,358).

Provision for impairment of trade and other receivables amounted to USD 1,369 during the year ended 31 December 2007 (2006: USD 4,073).

(expressed in thousands of US Dollars, unless otherwise stated)

26 OPERATING LEASE INCOME

The Group leases part of its store space to companies selling supplementary goods and services to customers. The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2007	2006
Not later than 1 year	28,380	16,153
Later than 1 year and no later than 5 years	17,820	6,782
Later than 5 years	5,730	1,952
	51,930	**24,887**

The rental income from operating leases recognised in the income statement amounted to USD 67,992 (2006: 35,268 USD). There were no contingent rents recognised in the income statement in the year ended 31 December 2007 (2006: nil).

27 FINANCE INCOME AND COSTS

	2007	2006
Interest expense	101,753	62,952
Interest income	(7,230)	(1,432)
Other finance costs, net	31,266	-
	125,789	**61,520**

Other finance costs include Pyaterochka Finance's bonds redemption costs of USD 10,404 and transaction costs of USD 19,480 written-off to the income statement due to repayment of syndicated loans during the year.

28 NET FOREIGN EXCHANGE GAIN

	2007	2006
Foreign exchange gains	67,195	14,083
Mark-to-market result on foreign exchange collar	(35,650)	-
	31,545	**14,083**

The Group used the foreign exchange collar with leading banking institutions to mitigate foreign currency risks associated with syndicated loan. However management did not formally designate the foreign exchange collars as hedging instruments and did not apply hedge accounting.

29 STAFF COSTS

	2007	2006
Wages and salaries	449,496	254,544
Social security costs	59,050	20,306
Share-based payments expense	47,709	27,702
	556,255	**302,552**

Key executive management personnel
Key management personnel and members of the Supervisory Board of the Company receive compensation in the form of short-term employee benefits and share-based payments (Note 30). For the year ended 31 December 2007 key management personnel and members of the Supervisory Board of the Company were entitled to total short-term compensation of USD 8,217 (2006: USD 16,467), including bonuses of USD 4,437 (2006: USD 7,282) and share-based payments of USD 33,111 (2006: 6,321). The compensation is made up of annual remuneration and a performance bonus depending on operating results.

(expressed in thousands of US Dollars, unless otherwise stated)

30 SHARE-BASED PAYMENTS

In February and June 2007 the Group paid the cancellation fees related to the employee stock option program acquired in May 2006 with the acquisition of Pyaterochka Holding N.V. (Note 8). The amount of the cancellation fees outstanding at 31 December 2007 totalled to USD 2,389 (31 December 2006: USD 69,990) and will be paid out within a year of the balance sheet date.

In March 2007 the Group announced a new employee stock option program for its key executives and employees. The total number of share options is capped at 10,824,008 GDRs. Each option carries the right to one GDR. The program will run in four tranches that will be issued over the period to 19 May 2009. The vesting requirement of the program is the continued employment of participants.

The first and second tranches were approved for granting at 15 June 2007. The first tranche vests immediately and covers the period of service of option holders from 1 January 2007 to 15 June 2007. The second tranche will vest on 18 May 2008. The exercise price of the first grant is USD 18.00 per GDR. The exercise price of the second option tranche equals to USD 30.62 per GDR. Participants of the ESOP can exercise the share option at any time over the period from vesting till 18 November 2010.

In total, during the year ended 31 December 2007 the Group recognised expenses related to the ESOP in the amount of USD 47,708 (2006: USD 27,702). At 31 December 2007 the share-based payments liability amounted to USD 45,597 (31 December 2006: USD 69,990). Equity component was effectively zero at 31 December 2007 (2006: zero).

Details of the share options outstanding during year ended 31 December 2007 are as follows:

	Number of share options	**Weighted average exercise price, USD**	**Weighted average share price, USD**
Outstanding at the beginning of the year	-	-	
Granted during the year	4,198,000	26.4	
Exercised during the year	(250,000)	18.0	36.0
Cancelled during the year	(365,000)	27.3	
Outstanding at the end of the year	**3,583,000**	**26.9**	
Exercisable at 31 December 2007	1,145,000	18.0	

The total intrinsic value of vested share options amounted to USD 21,183 as at 31 December 2007.

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the services received is measured based on Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options, being 18 November 2010, due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 31 December 2007 were as follows:

GDR price at 31 December 2007	36.5
Expected volatility	35.8%
Risk-free interest rate	5.44%
Dividend yield	0%

(expressed in thousands of US Dollars, unless otherwise stated)

31 INCOME TAX

	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax charge	120,814	63,660
Deferred income tax benefit	(21,889)	(27,598)
Income tax charge for the year	**98,925**	**36,062**

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before taxation	242,673	120,274
Theoretical tax at the effective statutory rates *	58,242	28,856
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income taxable at rates different from standard statutory rates	(11,241)	(15,688)
Inventory shrinkage expenses	33,862	6,937
Unrecognised tax loss carry forward for the year	635	3,800
Share-based payments expenses	9,952	-
Other non-deductible expenses	7,475	5,891
Provision for uncertain tax positions (Note 35)	-	6,266
Income tax charge for the year	**98,925**	**36,062**

* Profit before taxation on Russian operations is assessed based on the statutory rate of 24%, profit before taxation on Ukrainian operations is assessed based on the statutory rate of 25%.

(expressed in thousands of US Dollars, unless otherwise stated)

31 INCOME TAX (continued)

Deferred income tax

Differences between financial reporting standards and taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities and their tax bases. The tax effect of the movement on these temporary differences is recorded at the rate of 24% for Russian operations and of 25% for Ukrainian operations.

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2007:

	31 December 2006	Credited to profit and loss	Deferred tax on business combinations (Note 8)	Recog-nised in equity for translation difference s	31 December 2007
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	-	16,341	-	372	16,713
Property, plant and equipment	7,675	(676)	-	530	7,529
Intangible assets	-	51	-	2	53
Accounts Receivable	5,775	5,853	-	666	12,294
Liability for share based expenses	16,284	(16,214)	-	503	573
Other	8,650	8,575	694	1,793	19,712
Gross deferred tax asset	**38,384**	**13,930**	**694**	**3,866**	**56,874**
Less offsetting with deferred tax liabilities	(19,758)	(6,829)	-	(1,930)	(28,517)
Recognised deferred tax asset	**18,626**	**7,101**	**694**	**1,936**	**28,357**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(84,545)	4,151	(38,587)	(5,822)	(124,803)
Intangible assets	(112,817)	13,080	(788)	(7,562)	(108,087)
Accounts Receivable	-	(3,222)	-	(76)	(3,298)
Other	-	(6,050)	(206)	(174)	(6,430)
Gross deferred tax liability	**(197,362)**	**7,959**	**(39,581)**	**(13,634)**	**(242,618)**
Less offsetting with deferred tax assets	19,758	6,829	-	1,930	28,517
Recognised deferred tax liability	**(177,604)**	**14,788**	**(39,581)**	**(11,704)**	**(214,101)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 276,742 (2006: USD 162,573) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

The current portion of the deferred tax liability amounted to USD 23,289 (31 December 2006: USD 13,420), the current portion of the deferred tax asset amounted to USD 7,580 (31 December 2006: USD 17,467).

Management believes that future taxable profits in tax jurisdictions that suffered loss in current or preceding years will be available to utilise recognised in the current period deferred tax asset of USD 16,341 for the carryforward of unused tax loss.

(expressed in thousands of US Dollars, unless otherwise stated)

31 INCOME TAX (continued)

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2006:

	31 December 2005	Charged to profit and loss	Deferred tax on business combinations	Deferred tax asset in disposed subsidiaries	Recog-nised in equity for translation differences	31 December 2006
Tax effects of deductible temporary differences and tax loss carryforwards:						
Tax losses available for carry forward	1,269	(1,343)	-	-	74	-
Property, plant and equipment	-	3,468	4,090	-	117	7,675
Accounts Receivable	3,001	1,245	1,170	-	359	5,775
Liability for share based expenses	-	16,284	-	-	-	16,284
Other	(1,131)	2,591	6,710	(76)	556	8,650
Gross deferred tax asset	**3,139**	**22,245**	**11,970**	**(76)**	**1,106**	**38,384**
Less offsetting with deferred tax liabilities	(3,139)	(5,962)	(10,337)	76	(396)	(19,758)
Recognised deferred tax asset	-	**16,283**	**1,633**	-	**710**	**18,626**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(14,764)	1,522	(68,718)	-	(2,585)	(84,545)
Intangible assets	(5,049)	3,831	(109,053)	-	(2,546)	(112,817)
Gross deferred tax liability	**(19,813)**	**5,353**	**(177,771)**	**-**	**(5,131)**	**(197,362)**
Less offsetting with deferred tax assets	3,139	5,962	10,337	(76)	396	19,758
Recognised deferred tax liability	**(16,674)**	**11,315**	**(167,434)**	**(76)**	**(4,735)**	**(177,604)**

32 FINANCIAL RISKS MANAGEMENT

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical and liquidity rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk management is carried out by a central treasury department (Group Treasury). Group Treasury monitors and measures financial risks and undertakes steps to limit their influence on the Group's performance. In this connection the Group uses certain derivative financial instruments to mitigate financial risk exposures. These instruments are primarily intended to cap risks associated with the most significant foreign currency denominated long-term borrowings.

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 20). Therefore the Group Treasury's risk management policy is primarily to hedge anticipated cash outflows associated with borrowings in US dollar. The Group used foreign exchange collars with leading banking institutions to hedge currency risks associated with syndicated loan (Note 20), however, there were none of these instruments at 31 December 2007. The loss on the foreign exchange collars amounted to USD 35,650 (Note 28). The new syndicated loan for USD 1,100,000 was hedged against currency risk in February 2008 (Note 20).

At 31 December 2007, if the Russian Rouble had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 34,426 (31 December 2006: USD 18,144) lower/higher, mainly as a result of foreign exchange losses/gains on US dollar denominated borrowings.

Interest rates risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. It is the Group policy to manage cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

In 2007 the Group used an interest rate swap with leading banking institutions to hedge the interest rate of USD denominated loans. The effect of the swap on profit or loss of 2007 was insignificant. The new syndicated loan for USD 1,100,000 was hedged against interest rate risk in February 2008 (Note 20). However management did not formally designate interest rate swap as hedging instruments and did not apply hedge accounting.

As a result of using interest rate swaps change in market interest rates with all other variables held constant would not significantly affect post-tax profit of the Group. At 31 December 2007, if LIBOR at that date had been 50 basis points lower/higher with all other variables held constant, post-tax profit for the year would have been USD 1,362 (31 December 2006: USD 253) lower/higher.

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consist principally of cash and cash equivalents held in banks, trade and other receivables (Note 10 and Note 16). Due to the nature of its main activities (retail sales to individual customers) the Group has no significant concentration of credit risk. Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default. The Group has policies in place to ensure that in case of credit sales of products and services to wholesales customers only those with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant.

(expressed in thousands of US Dollars, unless otherwise stated)

32 FINANCIAL RISKS MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by the Group Treasury.

Management monitors monthly rolling forecasts of the group's cash flows. The Group manages liquidity requirements by the use of both short- and long-term projections and by maintaining the availability of funding from an adequate amount of committed credit facilities.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date at spot foreign exchange rates:

Year ended 31 December 2007

	During 1 year	In 1 to 3 years	In 3 to 5 years	After 5 years
Borrowings	374,030	1,665,661	-	-
Trade payables	968,505	-	-	-
Gross finance lease liabilities	2,145	1,181	-	-
Other finance liabilities	144,844	-	-	
	1,489,524	**1,666,842**	**-**	**-**

Year ended 31 December 2006

	During 1 year	In 1 to 3 years	In 3 to 5 years	After 5 years
Borrowings	315,256	1,057,716	-	-
Trade payables	552,060	-	-	-
Gross finance lease liabilities	2,271	2,913	-	-
Other finance liabilities	113,660	-	-	-
	983,247	**1,060,629**	**-**	**-**

At 31 December 2007 the Group has negative working capital of USD 690,820 (31 December 2006: USD 436,521) including short-term borrowings of USD 253,733 (31 December 2006: USD 218,013).

At 31 December 2007 the Group had available credit lines banks of USD 330,965 (31 December 2006: nil).

The Group plans to issue up to RUR 16 billion (USD 651,832 at spot foreign exchange rate) callable bonds in 2 tranches during 2008 to refinance the Group's existing debt and fund its store expansion.

Management considers that the available credit lines and expected operating cash flows are sufficient to finance the Group's current operations.

33 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 total equity attributable to equity holders recognized under IFRS requirements.

Simultaneously, the Group maintains optimal capital structure by tracing certain capital requirements based on ratios. The ratios are maximum level of Debt/EBITDA, minimum level of EBITDA/Interest expense, minimum level of EBITDAR/Fixed costs and maximum level of capital expenditure. These ratios are included as covenants into new loan agreements (Note 20). The Group is in compliance with externally imposed capital requirements.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortised cost. The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques. Carrying amounts of trade and other payables approximate fair values.

The fair value of X5 Finance bonds traded on the MICEX is determined based on active market quotations and amounted to USD 360,936 at 31 December 2007 (31 December 2006: nil). The carrying value of these bonds amounted to USD 364,763 at 31 December 2007 (31 December 2006: nil) (Note 20).

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value is determined based on quoted market prices or valuation techniques (Note 18).

(expressed in thousands of US Dollars, unless otherwise stated)

35 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases
At 31 December 2007, the Group operated 491 stores through rented premises (31 December 2006: 353). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts and denominated in USD. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable fees. Substantially all of the lease agreements have an option that enables the Group to cancel agreement at mutual concord of the parties involved.

The future minimum lease payments under non-cancellable operating leases of property are as follows (net of VAT):

	31 December 2007	31 December 2006
During 1 year	99,786	65,199
In 2 to 5 years	276,653	184,936
Thereafter	196,868	116,244
	573,307	**366,379**

Capital expenditure commitments
At 31 December 2007 the Group contracted for capital expenditure of USD 131,964 (net of VAT) (2006: USD 81,375).

Recent volatility in global financial markets.
Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. However management assess that the Group's financial position is not currently affected by the consequences of deterioration in the liquidity of the financial markets and their increased volatility.

Legal contingencies
In the normal course of business the Group is involved in periodic legal cases. Management does not anticipate any material negative impact on the resolution of these cases.

Taxation environment
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 may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged as not having been in compliance with Russian tax laws applicable at the relevant time. In particular, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced on 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities arising from inter-company transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

(expressed in thousands of US Dollars, unless otherwise stated)

35 COMMITMENTS AND CONTINGENCIES (continued)

Russian tax legislation does not provide definitive guidance in many areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management estimates that possible exposure in relation to profit tax and other non-profit tax risks such as inter-company transactions, VAT and employee related taxes, that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times the additional accrued liabilities and provisions reflected on the balance sheet at that date (and potentially in excess of the Group's profit before tax for the year). This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability. At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 75,671 at 31 December 2007 (31 December 2006: USD 55,773) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2006	**8,000**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 8)	40,000
Additional liabilities recorded during the year	7,773
Reversals of prior year - accruals	-
Balance at 31 December 2006	**55,773**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 8)	15,560
Translation movement	4,338
Balance at 31 December 2007	**75,671**

36 SUBSEQUENT EVENTS

Due diligence of Karusel started
The Group has sent an Option Notice (the Notice) to the shareholders of Formata Holding B.V. (Formata) on execution of its rights under a Call Option Agreement with respect to the purchase of 100% of the shares of Formata (the Option Shares). Formata owns the Karusel hypermarket chain. The Notice is irrevocable. Nevertheless, the acquisition of the Option Shares is conditional upon the completion by the Group to its satisfaction of due diligence on Formata and on receipt by the Group of any required regulatory, shareholder or third party approvals.

Following receipt of the Notice by Formata's shareholders, the Group has begun carrying out due diligence on Formata's legal, tax, financial, business, real estate standing, etc.

Completion of the Call Option, assuming the above conditions are fulfilled, must take place by the later of (i) 1 July 2008 or (ii) three months after the provision to the Group of the audited consolidated IFRS accounts for Formata for the year ended 31 December 2007.

The amount payable by the Group is calculated based on the acquiree's sales, EBITDA and debt. No less than 75% of the Option Price is payable in cash, while the remaining amount can be settled by newly issued shares of the Group.

The financing structure for the potential acquisition of Formata is still being determined, with different forms of equity financing currently under consideration, including the possibility of granting existing GDR holders rights to subscribe for additional GDRs on a pro rata pre-emptive basis (subject to applicable legal requirements). To make possible equity financing options technically feasible, the Supervisory Board requires extended authority to approve the issuance of shares and the granting of rights to subscribe for shares. Should the Company decide to proceed with the acquisition, it anticipates to raise equity financing of approximately USD 1 billion in the first half of year 2008.

The approval of any secondary offering is within the competence of the General Meeting of Shareholders of the Company and as such will only be adopted in case of approval on the General Meeting of Shareholders.

Business combination in Perm region
In March 2007 the Group signed an agreement to acquire 100% of the business and assets of Kama Retail company – a Pyaterochka franchisee in the Perm region, for a total consideration of approximately USD 18,000, including debt. The Company plans to close the deal in April 2008. The Group will acquire a total of 28 soft discounters in Perm and the Perm region with a selling area of 9.3 thousand sq.m. The total area of purchased stores is 19.9 thousand sq.m. The Group plans to assess fair value of assets and liabilities acquired as well as consideration paid to be used in purchase accounting of the business combination.