

**DORINDA HOLDING S.A. Group**

**International Financial Reporting Standards  
Consolidated Financial Statements**

**31 December 2007**

## **Consolidated Directors' Report**

### **Activity and Group Structure**

DORINDA HOLDING S.A. ("the Group") has two main activities; operating the OKEY retail network and constructing and operating commercial properties in the Russian Federation.

### **Performance in 2007**

The OKEY retail network is a dynamically developing retail chain, which, based on the 2007 results, ranks in the top 10 retailers in Russia in terms of the revenues.

The majority of OKEY's stores are in the format of hypermarkets. However, by the end of 2007 the network additionally opened 5 supermarkets in St.Petersburg under the 'OKEY Express' brand name.

The revenues of the Group for the year 2007 amounted to USD 1 194 million. This amount includes \$1 168 million of revenues generated from retail sales, which is an increase of 94% compared to the year 2006. The net profit of the Group was USD 13 million.

The growth in revenue as compared to the prior year was a result of both opening of new hypermarkets and growth of sales in existing stores. Thus, in 2007, sales increased by 95% are due to increase of the sales in existing retail outlets by 48% and increase in the number of retail outlets by 47%. The opening of 7 new hypermarkets and 5 new supermarkets in the year 2007 contributed to the increase of revenues of USD 283 million.

According to the result of independent appraisal carried out by Avers as at 31 December 2007 the fair value of real estate property owned by the Group amounted to USD 757 million.

In 2007 the amount of fixed assets and investment property of the Group increased by 56% and reached USD 834 million. The main factors, which caused the increase of the balances of fixed assets and investment property, were:

- Completion of construction and putting into operation of the new hypermarkets, as well as purchase of new land (USD 113 million);
- Machinery and equipment (USD 52 million)

As at 31 December 2007 the balance of trade accounts payable of the Group was USD 266 million. The accounts payable of the Group is basically debts to two categories of suppliers:

- Suppliers of goods for the OKEY retail network;
- Accounts payable to the contractors for the provision of construction services.

In addition, there is no individually significant balance of accounts payable, which exceeds 2% of the total balance of accounts payable.

The main debtors of the Group are tenants of premises in hypermarket buildings and trading centre and customers of advertising services. Because the main activity of the Group is retail trade, the major portion of sales are cash sales, consequently there are no significant balances of accounts receivable.

The inventory balances in 2007 have increased by 1.8 times up to the level of USD 106 million as compared to the prior year. That was due to dynamic development of the retail network and the opening of new stores.

As at 31 December 2007 the short-term borrowings in the total liabilities of the Group is USD 286 million, or 32% of the total liabilities. The creditors' days exceed the debtors' days and stock turn-over, which allows the Group to attract the additional short-term financing.

As at 31 December 2007, the total value of financial debt of the Group was USD 521 million, including:

- Bank loans - 75%;
- Loans from related parties - 25%;

### **Real Estate and Land Plots**

DORINDA HOLDING S.A. ("the Group") possesses a bank of land plots in the Russian Federation with a total area of 1 639 thousand sq. m, of which 603 thousand sq. m. is land owned by the Group and 1 036 thousand sq. m. is leased on long term leases. The ownership of these land plots secures the Group's ability to further expand without incurring additional significant expenses related to leasing land.

At present, negotiations for several perspective land plots for expanding the retail network in Russia's regions are being conducted and are at different stages.

Having land in ownership will further save OKEY from additional expenses related to land lease and costs on purchase thereof when the lease period is over.

Since 2006 the Group has launched a new format – 'supermarket'. The plans of the Group include further development of this format through both construction and leasing of new buildings.

The table below contains information on own and leased trade area of OKEY retail network:

All in sq. m.	2005	2006	2007
Total trade area, including	33 100	81 000	147 235
Leased area	-	1 700	1 700
Own areas	33 100	79 300	145 535

### **Suppliers**

The Group has implemented procedures to select its suppliers using comparative analysis and tender procedures in order to increase the quality of the goods supplied and services rendered, as well as to secure competitive prices. The Centralized Purchasing System has been introduced in all regions where the Group is represented. Most goods are delivered by suppliers directly to the hypermarkets. Imported non-food goods are delivered to centralized warehouses, from where they are distributed to the hypermarkets.

### **Personnel**

The Group employed an average of 8.5 thousand employees during the year 2007. All the hypermarket and supermarket personnel are continuously trained and appraised. All employees are evaluated twice a year and improve their qualifications at the Company Training Center in compliance with annual and monthly training programs and tasks set by the management. The training is conducted mainly in active forms such as roll-plays and interactive workshops. The Group is highly attentive to maintaining the OKEY retail network's concept and corporate image at all levels.

### Strategy / Plans for 2008-2010

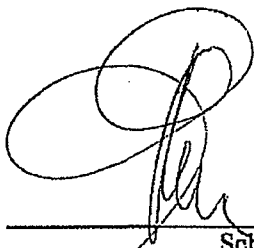
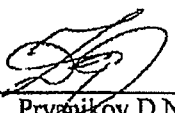

The Group's strategy is targeted at regional expansion and on gaining market share in those locations where the OKEY retail network is currently operating, primarily by opening supermarkets. The hypermarket format is in management's view the optimal method for regional expansion, allowing significant market shares to be gained within a limited time frame. By the end of 2010, the Group plans to manage 53 hypermarkets and 51 supermarkets with a total sales area of more than 450 thousand sq. m. For the purpose of increasing the market share, the OKEY retail network plans to actively develop the supermarket format.

By the end of 2008 year the Group plans opening 4 hypermarkets in Murmansk, Krasnoyarsk, Volgograd, Nizhniy Novgorod.

By the Group's forecast, by the end of 2010, 40% of the OKEY's retail revenue will come from the regions, and OKEY hypermarkets will be present in 10 of the Russian Federation's regions (the forecast is based on the land plots available in the regions). In present circumstances many external development projects, which we considered to participate in, possibly may not continue to develop. Thus we plan to grow through acquisition of regional retail chains and separate outlets.

### Subsequent events

We entered into loan agreement with EBRD amounting to \$ 200 million, which partly will be used to re-finance short-term borrowings of the Group, and partly used for investment in regional expansion. The Group also entered into several credit line agreements and loan agreements totalling \$199 million. Borrowings received subsequent to the balance sheet date are secured through the pledge of the Group's real estate amounting to \$125 million (at fair value of assets).

  
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Schneider G.  
Member of Administrative Board  
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Pryanikov D.N.  
Financial Director  
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To the Shareholders of  
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## **REPORT OF THE REVISEUR D'ENTREPRISES**

### ***Report on the consolidated financial statements***

We have audited the accompanying consolidated financial statements of Dorinda Holding S.A., which comprise the consolidated balance sheet as at December 31, 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.

### ***Board of Directors' responsibility for the consolidated financial statements***

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

### ***Responsibility of the Réviseur d'Entreprises***

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 as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Basis for Qualified Opinion*

At the end of 2005 the Group was in the process of upgrading its inventory management system. During the upgrade phase, the Group could not adequately maintain accounting records with regard to inventory quantities. As a result, we were unable to investigate differences between actual inventory quantities and quantities recorded in the accounting records observed when counting the inventories stated at USD 23,234 thousand as at January 1, 2006. It was not practicable to satisfy ourselves as to these inventory quantities by other audit procedures. Accordingly, we were unable to determine whether any adjustments might be necessary to cost of sales, taxation expense and net profit for the year ended December 31, 2006.

*Qualified Opinion*

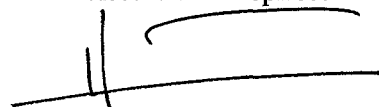
In our opinion, except for the effects on the corresponding figures of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Report on other legal and regulatory requirements*

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, November 6, 2008

KPMG Audit S.à r.l.  
Réviseurs d'Entreprises

  
Thierry Ravasio

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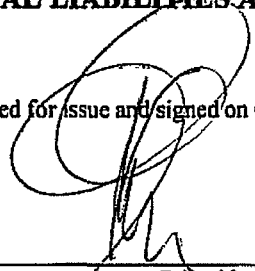
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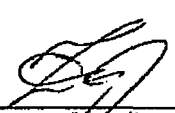
**DORINDA HOLDING S.A. Group**  
**Consolidated Income Statement**

<i>In thousands of US Dollars</i>	<b>Notes</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	9	103 252	38 746
Property, plant and equipment	8	730 917	495 170
Construction in progress	8	70 139	67 702
Intangible assets		2 208	418
Long-term loans issued		1 587	1 924
Deferred income tax asset	23	2 760	373
Other non-current assets	10	147 478	130 214
<b>Total non-current assets</b>		<b>1 058 341</b>	<b>734 547</b>
<b>Current assets</b>			
Inventories	11	106 160	58 711
Trade and other receivables	12	80 017	77 804
Short-term loans issued		1 296	847
Cash and cash equivalents	13	63 450	50 022
Assets held for sale	25	2 204	-
<b>Total current assets</b>		<b>253 127</b>	<b>187 384</b>
<b>TOTAL ASSETS</b>		<b>1 311 468</b>	<b>921 931</b>
<b>EQUITY</b>	15	<b>405 288</b>	<b>284 275</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	14	234 240	365 217
Deferred income tax liability	23	82 728	49 319
Deferred income		362	338
Other non-current liabilities	16	2 482	1 661
<b>Total non-current liabilities</b>		<b>319 812</b>	<b>416 535</b>
<b>Current liabilities</b>			
Borrowings	14	286 380	41 021
Trade and other payables	18	290 992	178 282
Current income tax payable		5 903	1 616
Deferred income		880	202
Liabilities held for sale	25	2 213	-
<b>Total current liabilities</b>		<b>586 368</b>	<b>221 121</b>
<b>TOTAL LIABILITIES</b>		<b>906 180</b>	<b>637 656</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1 311 468</b>	<b>921 931</b>

Approved for issue and signed on 06 November 2008.

  
 Schneider G.  
 Member of Administrative Board

  
 Schaeffer N.  
 Member of Administrative Board

  
 Pryanikov D.N.  
 Financial Director

\*The accompanying notes are an integral part of these consolidated financial statements



**DORINDA HOLDING S.A. Group**  
**Consolidated Income Statement**

<i>In thousands of US Dollars</i>	<b>Notes</b>	<b>2007</b>	<b>2006</b>
Revenue	19	1 193 802	614 300
Cost of goods sold		(940 912)	(488 478)
<b>Gross profit</b>		<b>252 890</b>	<b>125 822</b>
General, selling and administrative expenses	20	(199 300)	(84 899)
Other operating income and expenses	21	(12 721)	754
<b>Operating profit</b>		<b>40 869</b>	<b>41 677</b>
Interest income		849	304
Finance costs	22	(37 102)	(24 214)
Foreign exchange gains		25 668	22 729
<b>Profit before income tax</b>		<b>30 284</b>	<b>40 496</b>
Income tax expense	23	(17 009)	(17 681)
<b>Profit for the year</b>		<b>13 275</b>	<b>22 815</b>

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

**DORINDA HOLDING S.A. Group**  
**Consolidated Statement of Changes in Equity**

*In thousands of US Dollars*

	Notes	Share capital	Legal reserve	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation reserve	Total equity
<b>Balance at 31 December 2005</b>		<b>37</b>	<b>4</b>	<b>45 237</b>	<b>67 340</b>	<b>81 640</b>	<b>(6 076)</b>	<b>188 182</b>
Profit for the year		-	-	-	22 815	-	-	22 815
Revaluation of property, plant and equipment	15	-	-	-	-	33 471	-	33 471
Transfer of revaluation reserve (•)	15	-	-	-	7 022•	(7 022)•	-	-
Currency translation differences		-	-	-	-	-	21 141	21 141
<b>Total recognized income and expenses</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>29 837•</b>	<b>26 449•</b>	<b>21 141</b>	<b>77 427</b>
Contributions from shareholders	15	-	-	55 919	-	-	-	55 919
Distributions to shareholders		-	-	-	(37 253)	-	-	(37 253)
<b>Balance at 31 December 2006</b>		<b>37</b>	<b>4</b>	<b>101 156</b>	<b>59 924•</b>	<b>108 089•</b>	<b>15 065</b>	<b>284 275</b>
Profit for the year		-	-	-	13 275	-	-	13 275
Revaluation of property, plant and equipment	15	-	-	-	-	80 785	-	80 785
Currency translation differences		-	-	-	-	-	24 594	24 594
<b>Total recognized income and expenses</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>13 275</b>	<b>80 785</b>	<b>24 594</b>	<b>118 654</b>
Contributions from shareholders	15	-	-	5 332	-	-	-	5 332
Distributions to shareholders		-	-	-	(2 973)	-	-	(2 973)
<b>Balance at 31 December 2007</b>		<b>37</b>	<b>4</b>	<b>106 488</b>	<b>70 226</b>	<b>188 874</b>	<b>39 659</b>	<b>405 288</b>

• Restated - refer to the Note 15 for details.

\*The accompanying notes are an integral part of these consolidated financial statements

**DORINDA HOLDING S.A. Group**  
**Consolidated Statement of Cash Flows**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Profit before income tax	30 284	40 496
Adjustments for:		
Depreciation and amortization	32 604	12 838
Gain on disposal of property, plant and equipment and investment property	(411)	(194)
Profit from revaluation of investment property	(18 237)	(2 726)
Impairment of property, plant and equipment	29 975	-
Loss from write-off of receivables	1 247	1 213
Interest income	(849)	(304)
Finance costs	37 102	24 214
Foreign exchange losses less gains	(25 668)	(22 017)
<b>Operating cash flow before working capital changes</b>	<b>86 047</b>	<b>53 520</b>
Increase in trade and other receivables	(83)	(31 207)
Increase in inventories	(41 427)	(32 266)
Increase in trade and other payables	118 753	75 335
Decrease/(increase) in deferred income	703	(140)
<b>Cash generated from operations</b>	<b>163 993</b>	<b>65 242</b>
Interest received	553	-
Interest paid	(51 860)	(19 652)
Income taxes paid	(12 283)	(18 720)
<b>Net cash from operating activities</b>	<b>100 403</b>	<b>26 870</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and initial cost of land lease	(201 789)	(253 567)
Expenditures on investment property	(3 862)	(2 595)
Purchase of intangible assets	(2 082)	(204)
Proceeds from sale of property, plant and equipment	5 267	19 796
Net change in loans issued	(112)	(1 772)
<b>Net cash used in investing activities</b>	<b>(202 578)</b>	<b>(238 342)</b>
<b>Cash flows from financing activities</b>		
Receipt of contributions from shareholders	-	8 907
Proceeds from borrowings	452 851	305 891
Distributions to shareholders	-	(4 329)
Repayment of borrowings	(335 683)	(60 868)
Repayment of finance lease payables	(2 741)	(1 246)
<b>Net cash from financing activities</b>	<b>114 427</b>	<b>248 355</b>
<b>Net increase in cash and cash equivalents</b>	<b>12 252</b>	<b>36 883</b>
Effect of exchange rate changes on cash and cash equivalents	1 176	137
<b>Cash and cash equivalents at the beginning of the year</b>	<b>50 022</b>	<b>13 002</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>63 450</b>	<b>50 022</b>

## **1 The DORINDA HOLDING S.A. Group and its Operations**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the year ended 31 December 2007 for Dorinda Holding S.A. (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated and is domiciled in Luxembourg. The Company was set up in accordance with Luxembourg regulations. The main part of the Group is located and conducts its business in the Russian Federation.

The Group is ultimately controlled by three individuals, Mr.Korzhev, Mr.Troitsky and Mr.Volchek ("the shareholder group"), who have the power to direct the transactions of the Group at their own discretion and for their own benefits. They also have a number of other business interests outside of the Group. Related party transactions are detailed in Note 7.

The Group's principal business activity is operation of retail chain in Russia under brand name "O'Key". At 31 December 2007 the Group operated twenty four stores, with further 1 store opened shortly after the reporting date (31 December 2006: 12 stores).

The Company's registered address is: Luxembourg 23, rue Beaumont, L-1219 Luxembourg.

**Business environment.** The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2 Summary of Significant Accounting Policies**

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

**Basis of measurement** The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and investment property are stated at fair value and that lands and buildings are subject to revaluation on a regular basis. The carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

**Functional and presentation currency.** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US Dollars, which is the Company's presentation currency as management believes it is the most useful currency to adopt for users of these consolidated financial statements. All amounts in these financial statements are presented in thousands of US Dollars ("\$ thousands"), unless otherwise stated.

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The results and financial position of all the Group entities are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates and
- all resulting exchange differences are recognized as translation reserve in equity.

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

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

**Investments in Joint Ventures.** Joint ventures are jointly controlled entities, whereby the Company and other parties undertake an economic activity that is subject to joint control. In accordance with the revised IAS 31 "Interests in Joint Ventures" jointly controlled entities are accounted for using proportionate consolidation method, whereby the Company's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Company's financial statements. Where a sale of assets to joint ventures occurred, and these assets were retained by the joint venture, the Company recognized only that portion of the gain or loss that is attributable to the interests of the other venturers. When a purchase of assets from joint ventures occurred, the Company's share in the profits from this transaction is not recognized until the assets are resold.

**Property, plant and equipment.** Property, plant and equipment are stated at cost for equipment and other fixed assets and stated at revalued amounts for land and buildings, as described below, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of land and buildings are credited to Revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is recognized either on the retirement or disposal of the asset.

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

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the 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 proceeds with carrying amount are recognized in profit or loss.

**Depreciation.** Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts over their estimated useful lives. The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

	<u>Useful lives in years</u>
Buildings	30
Machinery and equipment, auxiliary facilities	2 to 20
Motor vehicles	5 to 10
Leasehold improvements	over the term of the underlying lease

**Investment property.** Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value. Fair value of the Group's investment property is determined by independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category. The revaluation gain or loss is recognized in profit and loss account.

**Operating leases.** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease. When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term.

**Finance lease liabilities.** Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are recognized 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 shown as accounts payable (long-term accounts payable for amounts due over 12 months). The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life.

**Intangible assets.** All of the Group's intangible assets have definite useful lives and primarily include recognized computer software, patents and licenses. Acquired computer software, licenses and patents are recognized on the basis of the costs incurred to acquire and bring them to use.

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External development costs that are directly associated with identifiable and unique software controlled by the Group are added to the cost of the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Amortization on intangible assets is calculated using the straight-line method to allocate the cost over their estimated useful lives. The Group applies the useful lives from 3 to 7 years.

**Initial recognition of financial instruments.** The Group's 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.

**Classification of financial assets.** The Group classifies its financial assets as 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.

**Derecognition of financial assets.** The Group derecognizes financial assets when the assets are redeemed or the rights to cash flows from the assets have otherwise expired or the Group has transferred substantially all the risks and rewards of ownership of the assets or otherwise has lost control.

**Income taxes.** Income taxes have been provided in the consolidated financial statements in accordance with Russian legislation, as well as Luxembourg, BVI and Cyprus legislation for corresponding companies of the Group. The income tax charge comprises current tax and deferred tax and is recognized in the consolidated income statement unless it relates to transactions that are recognized, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to the taxation authorities in respect of taxable profits for the current period. Taxes, other than on income, are recorded within operating expenses.

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

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

**Inventories.** Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the immediate weighted average basis. The cost of goods for resale includes its purchase price and related transportation costs, as well as other related logistic costs. Net realizable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**Trade and other receivables.** Trade and other receivables are carried at amortized cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

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

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Deposits which are included in cash and cash equivalents are carried at amortized cost using the effective interest method.

**Value added tax.** Input VAT is generally reclaimable against sales VAT upon payment for purchases. 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 recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability.

**Capital and reserves.** Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

The dividends paid to the shareholders are recognized directly in equity once the decision on the payment takes place. The transfers of assets to the related parties (companies under the control of the Group's ultimate shareholders) or other benefits to such related parties are recognized directly in equity as distributions to the shareholders.

Translation differences resulting from the translation of financial position and results of the Group entities to presentation currency are recognized as translation reserve in equity.

**Borrowings.** Borrowings are carried at amortized cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

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

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

**Foreign currency translation.** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

**Revenue recognition.** Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, for retail trade it is normally at the cash register. Sales of services are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

Sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognized on a time-proportion basis using the effective interest method.



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

### **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 judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Tax legislation.** The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The major part of the tax burden refers to Russian tax, currency and customs legislation, which is subject to varying interpretations. Refer to Note 26.

**Revenue recognition.** The Group has recognised revenue amounting to \$1 168 011 thousand for sales of goods during 2007. According to the Group's policy customers has the right to return the goods if they are dissatisfied. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 0.1%, which is considered immaterial for recognition of a corresponding provision.

**Deferred income tax asset recognition.** The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on the expectations of future income that are believed to be reasonable under the circumstances.

**Assumptions in revaluing of land and buildings and investment properties.** Fair value of the Group's land and buildings and investment property is determined by registered independent appraisers with appropriate recognized professional qualification and recent experience in the location and type of the property valued. The detailed approaches are outlined in Note 8.

### **4 Adoption of IFRS**

Certain new standards and interpretations became effective for the Group from 1 January 2007. Except for IFRS 7 Financial Instruments, other 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 contract.

• **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:

**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 property, plant and equipment. 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 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. This new pronouncement will not significantly influence financial statements of the Group as the Group applied allowed alternative treatment (i.e. to capitalise interest into the cost of qualifying assets) under previously effective standard.

**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 acquirer'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.

**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. There would be no implication of the Group's financial statements as a result of these interpretations.

**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. There would be no implication of the Group's financial statements as a result of these interpretations.

**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. There would be no implication of the Group's financial statements as a result of these interpretations.

**IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (issued in November 2006; effective for annual periods beginning on or after 1 March 2007).** IFRIC 11 requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements. However, this interpretation will have no impact on consolidated financial statements.

**IFRIC 12 Service Concession Arrangements (issued in November 2006; effective for annual periods beginning on or after 1 January 2008).** IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

**IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (issued in July 2007; effective for annual periods beginning on or after 1 January 2008).** IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements. However, this interpretation will have no impact on consolidated financial statements.

## **6 Segment Information**

The Group has only one reportable business segment, which is retail trade, and one geographical segment: Russian Federation. Thus management believes that information presented in consolidated financial statements of the Group is sufficient and it has not presented segment information in a separate note.

## **7 Balances and Transactions with Related Parties**

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 and 31 December 2006 are detailed below.

At 31 December 2007 and 31 December 2006, the outstanding balances with related parties were as follows:

<i>In thousands of US Dollars</i>	<b>31 December 2007</b>	<b>31 December 2006</b>
	<b>Entities under common control of the ultimate shareholders</b>	
Trade and other receivables: Trade receivables	36	1 101
Trade and other receivables: Prepayments	36	36
Trade and other receivables: Other receivables	96	25
Other non-current assets: Receivables from shareholders	5 628	-
Short-term investments: Loans issued	1 220	-
Long-term borrowings	29 109	135 226
Short-term borrowings	99 099	-

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Trade and other payables: Trade payables	1	25 014
Trade and other payables: Prepayments	3	1 051

The income and expense items with related parties for the years 2007 and 2006 were as follows:

	2007	2006
Entities under common control of the ultimate shareholders		
<i>In thousands of US Dollars</i>		
Revenue from rent of premises	435	183
Other rental income	18	-
Operating leases	418	421
Finance costs	9 076	11 334

In the table above finance costs do not include \$2 891 thousand of interest costs, which were capitalized and thus increased initial cost of the Group's property, plant and equipment and investment property (2006: \$2 056 thousand).

Property, plant and equipment amounting to \$384 thousand were purchased from other related parties during the year ended 31 December 2007.

During 2007, shareholders made contributions disclosed in Additional paid in capital and detailed in note 15. 2007 contributions include compensation for the Group's loss from disposal of a land plot in 2006.

During 2007 and 2006 as a result of the increase in the interest rates in the loan agreements with the related parties (companies under the control of the Group's ultimate shareholders), the fair value of the respective loans has increased. The loss from these operations has been recognized directly in equity as a distribution to the shareholders. The amount of this distribution was equal to \$2 973 thousand (2006: \$14 387 thousand).

During 2006 the Group has disposed land plot to a related party (a company under the control of the Group's ultimate shareholders). The loss from this disposal has been recognized directly in equity as a distribution to the shareholders. The amount of this distribution (net of related taxes) was equal to \$22 428 thousand.

In 2007 the key management received remuneration in the form of wages and salaries amounting to \$3 677 thousand (2006: \$2 198 thousand).

## 8 Property, Plant and Equipment

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

<i>In thousands of US Dollars</i>	<b>Land</b>	<b>Buildings</b>	<b>Auxiliary facilities</b>	<b>Machinery and equipment</b>	<b>Other fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Deemed cost/Revalued amount</b>							
Balance at 1 January 2006	149 827	133 645	507	13 801	5 724	42 754	346 258
Additions	2 765	98 252	72	2 139	8 249	88 053	199 530
Transfers	-	59 634	76	6 250	743	(66 703)	-
Revaluation	19 232	19 754	-	-	-	-	38 986
Disposals	(42 087)	-	(118)	(2 647)	(1 434)	(319)	(46 605)
Translation to presentation currency	13 050	18 373	47	1 944	768	3 919	38 099
<b>Balance at 31 December 2006</b>	<b>142 787</b>	<b>329 658</b>	<b>584</b>	<b>21 487</b>	<b>14 050</b>	<b>67 702</b>	<b>576 268</b>
Balance at 1 January 2007	142 787	329 658	584	21 487	14 050	67 702	576 268
Additions	26 846	60 719	608	27 254	16 672	52 295	184 394
Transfers	-	25 719	-	24 311	837	(50 867)	-
Transfers to Investment property	(37 106)	-	-	-	-	-	(37 106)
Revaluation	115 206	(50 813)	-	-	-	-	64 393
Disposals	-	-	(22)	(639)	(186)	(1 178)	(2 025)
Transfer to assets held for sale	-	-	-	-	-	(2 008)	(2 008)
Translation to presentation currency	14 786	25 465	67	4 167	1 742	4 195	50 422
<b>Balance at 31 December 2007</b>	<b>262 519</b>	<b>390 748</b>	<b>1 237</b>	<b>76 580</b>	<b>33 115</b>	<b>70 139</b>	<b>834 338</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

<i>In thousands of US Dollars</i>	<b>Land</b>	<b>Buildings</b>	<b>Auxiliary facilities</b>	<b>Machinery and equipment</b>	<b>Other fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Depreciation</b>							
Balance at 1 January 2006	-	-	(148)	(4 463)	(1 884)	-	(6 495)
Depreciation charge	-	(4 884)	(107)	(3 924)	(2 454)	-	(11 369)
Revaluation	-	4 884					4 884
Disposals	-	-	60	191	129	-	380
Translation to presentation currency	-	-	(15)	(536)	(245)	-	(796)
<b>Balance at 31 December 2006</b>	-	-	<b>(210)</b>	<b>(8 732)</b>	<b>(4 454)</b>	-	<b>(13 396)</b>

Balance at 1 January 2007	-	-	(210)	(8 732)	(4 454)	-	(13 396)
Depreciation charge	-	(11 883)	(227)	(10 767)	(7 328)	-	(30 205)
Revaluation	-	11 883	-	-	-	-	11 883
Disposals	-	-	1	77	104	-	182
Translation to presentation currency	-	-	(31)	(1 085)	(630)	-	(1 746)
<b>Balance at 31 December 2007</b>	-	-	<b>(467)</b>	<b>(20 507)</b>	<b>(12 308)</b>	-	<b>(33 282)</b>

**Net book value**

<b>At 31 December 2005</b>	149 827	133 645	359	9 338	3 840	42 754	<b>339 763</b>
<b>At 31 December 2006</b>	142 787	329 658	374	12 755	9 596	67 702	<b>562 872</b>
<b>At 31 December 2007</b>	262 519	390 748	770	56 073	20 807	70 139	<b>801 056</b>

The carrying amount of land and buildings is the fair value of the land and buildings as determined by registered independent appraisers having an appropriate recognized professional qualification and recent experience in the location and type of the property being valued. Revaluation was made annually, for each reporting date.

In respect of land the appraisers have used the market approach, where applicable, and the income approach for determining the fair value of investment property. In respect of buildings, the appraisers have used primarily the income approach and, secondary the market approach for determining the fair value of buildings. Market approach was mainly used for the buildings of supermarkets.

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The market approach considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect the nature, conditions and locations of the appraised property relative to the market comparative. In the income approach, an estimate is made of annual net operating income, which is assumed to be constant in perpetuity. Discount rates from 8% to 10% were applied in the income based approach, dependent on local risk factors.

At 31 December 2007 property, plant and equipment carried at \$381 968 thousand (2006: \$293 428 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 14.

Included in Machinery and equipment are assets held under finance leases with a carrying value of \$6 018 thousand (2006: \$2 925 thousand). Included in Other fixed assets are assets held under finance leases with a carrying value of \$312 thousand (2006: \$507 thousand). Refer to Note 16.

## 9 Investment Property

*In thousands of US Dollars*

	Note	2007	2006
<b>Investment properties at fair value as at 1 January</b>		<b>38 746</b>	<b>30 421</b>
Transfers from property, plant and equipment		37 106	-
Expenditure on subsequent improvements		3 862	2 595
Fair value gain	21	18 237	2 726
Effect of translation to presentation currency		5 301	3 004
<b>Investment properties at fair value as at 31 December</b>		<b>103 252</b>	<b>38 746</b>

The carrying amount of investment property is the fair value of the property as determined by registered independent appraisers having an appropriate recognized professional qualification and recent experience in the location and type of the property being valued. Refer to Note 8.

At 31 December 2007 investment property carried at \$103 252 thousand (2006: \$38 746 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 14.

## 10 Other Non-Current Assets

*In thousands of US Dollars*

	2007	2006
Prepayments for non-current assets	29 743	40 749
Initial cost of land lease	112 107	89 465
Long term receivables from shareholders	5 628	-
<b>Total other non-current assets</b>	<b>147 478</b>	<b>130 214</b>

Initial cost of land lease includes purchase price and the costs directly attributable to acquisition of lease rights and are amortized over the period of the lease (49-51 years).

Movements in the carrying amount of initial cost of land lease were as follows:



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
<b>Cost</b>		
<b>Balance at 1 January</b>	<b>92 071</b>	<b>44 405</b>
Additions	22 434	42 164
Disposals	(5 039)	-
Translation to presentation currency	7 426	5 502
<b>Balance at 31 December</b>	<b>116 892</b>	<b>92 071</b>
<b>Accumulated amortization and depreciation charge</b>		
<b>Balance at 1 January</b>	<b>(2 606)</b>	<b>(1 145)</b>
Amortization charge	(1 943)	(1 314)
Disposals	36	-
Translation to presentation currency	(272)	(147)
<b>Balance at 31 December</b>	<b>(4 785)</b>	<b>(2 606)</b>
<b>Net book value</b>	<b>112 107</b>	<b>89 465</b>

At 31 December 2007 initial cost of land lease carried at \$4 859 thousand (2006: \$3 849 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 14.

**11 Inventories**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Goods for resale	101 000	56 255
Raw materials and consumable	5 160	2 456
<b>Total inventories</b>	<b>106 160</b>	<b>58 711</b>

The balances of inventories are presented net of write-down. In 2007 there was no write-down of inventories (2006: \$297 thousand). The write-down and reversal are included in cost of goods sold.

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**12 Trade and Other Receivables**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Trade receivables	9 831	29 225
Input VAT	16 458	23 640
Prepayments	12 897	5 351
Prepaid taxes and recoverable VAT	17 557	16 407
Discounts receivable from suppliers	17 178	708
Other receivables	6 096	2 473
<b>Total trade and other receivables</b>	<b>80 017</b>	<b>77 804</b>

**13 Cash and Cash Equivalents**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Cash on hand	2 651	1 140
RR denominated bank current account	18 805	12 774
USD denominated bank current account	6 905	298
RR term deposits (interest rate: 5% p.a.)	-	17 090
RR term deposits (interest rate: 6.5% p.a.)	-	5 218
Cash in transit	35 089	13 502
<b>Total cash and cash equivalents</b>	<b>63 450</b>	<b>50 022</b>

Term deposits had original maturities of less than three months.

**14 Borrowings**

***Long-term borrowings:***

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Secured bank Loans	205 131	229 172
Unsecured loans from Related parties	29 109	135 226
Unsecured loans from Other companies	-	819
<b>Total borrowings</b>	<b>234 240</b>	<b>365 217</b>

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Short-term borrowings:**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Secured bank Loans	185 957	39 043
Unsecured loans from Related parties	99 099	-
Unsecured loans from Other companies	1 324	1 978
<b>Total borrowings</b>	<b>286 380</b>	<b>41 021</b>

The following table shows the period in which the Group's borrowings reprice:

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
<b>Repricing</b>		
within 6 months	415 421	190 898
between 6 and 12 months	76 078	11 013
between 1 and 5 years	29 121	204 327
<b>Total borrowings</b>	<b>520 620</b>	<b>406 238</b>

The effective interest rates at the balance sheet date were as follows:

	<b>31 December 2007</b>	<b>31 December 2006</b>
<i>In % per annum</i>		
Secured bank loans	9.3%	9.8%
Unsecured loans from Related parties	8.8%	9.0%
Unsecured loans from Other companies	9.4%	0.1%

Property, plant and equipment, investment property and initial cost of land lease are pledged as collateral for borrowings of \$490 079 thousand (2006: \$336 023 thousand). Refer to Notes 8, 9 and 10.

**15 Revaluation reserves and Additional Paid-in Capital**

Movements in the other reserves and additional paid-in capital were as follows:

<i>In thousands of US Dollars</i>	<b>Revaluation reserve for property, plant and equipment</b>	<b>Additional paid- in capital</b>	<b>Total</b>
At 1 January 2006	81 640	45 237	126 877
Revaluation gain	43 870	-	43 870
Income tax effect	(10 399)	-	(10 399)
Transfer to retained earnings (*)	(7 022)	-	(7 022)
Salaries paid from shareholders funds	-	2 016	2 016
Receipt of zero-interest loans from shareholders	-	1 951	1 951
Forgiveness of loan by shareholders	-	51 952	51 952
<b>At 31 December 2006</b>	<b>108 089</b>	<b>101 156</b>	<b>209 245</b>
Revaluation gain	106 251	-	106 251
Income tax effect	(25 466)	-	(25 466)
Receipt of compensation for loss from sale of land plot	-	5 332	5 332
<b>At 31 December 2007</b>	<b>188 874</b>	<b>106 488</b>	<b>295 362</b>

- \* In accordance with the accounting policy the Group transfers portion of the revaluation reserve to retained earnings in case of disposal or retirement of the previously revalued item of property, plant and equipment. In the financial statements for the year ended 31 December 2006 the Group has disclosed such transfer in the amount of \$ 27 534 thousand. Subsequent to 31 December 2006 the Group has performed the proper calculation of the transfer for 2006 and came to the amount of \$ 7 022. The Group has decided to change the prior year presentation in relation to this issue.

As at December 31, 2007, the Group's subscribed capital of USD 37 thousands (EUR 31 thousands, 2006: EUR 31 thousands) is represented by 3,100 shares with a par value of EUR 10 each.

The Group's authorized capital is set up at EUR 250,000 (2006: EUR 250,000)

## 16 Financial Leases

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

<i>In thousands of US Dollars</i>	<b>Due within 1 year</b>	<b>Due between 2 and 5 years</b>	<b>Total</b>
<b>Minimum lease payments at 31 December 2006</b>	<b>1 303</b>	<b>1 852</b>	<b>3 155</b>
Less future finance charges	(259)	(191)	(450)
<b>Present value of minimum lease payments at 31 December 2006</b>	<b>1 044</b>	<b>1 661</b>	<b>2 705</b>
<b>Minimum lease payments at 31 December 2007</b>	<b>319</b>	<b>3 039</b>	<b>3 358</b>
Less future finance charges	(58)	(557)	(615)
<b>Present value of minimum lease payments at 31 December 2007</b>	<b>261</b>	<b>2 482</b>	<b>2 743</b>

There are no lease payments under finance leases due after 5 years.

## 17 Operating Leases

**Leases as lessee.** The Group leases a number of land plots under operating leases. The leases typically run for 49 years, with an option to renew the lease after that date. The lessor for these leases is normally local state authorities. Lease payments are regularly reviewed following the decision of the authorities. The Group has no non-cancellable leases, subleases or contingent rent arrangements. The Group has also a few premises under operating leases. These leases typically run for 10 years.

During the year ended 31 December 2007 \$7 223 thousand was recognized as an expense in the income statement in respect of operating leases (2006: \$4 372 thousand). The expense includes the amortization of initial cost of land lease.

**Leases as lessor.** The Group leases out its investment property and some space in the buildings of hypermarkets. During the year ended 31 December 2007 \$21 578 thousand was recognized as rental income in the income statement (2006: \$15 014 thousand). The Group has no non-cancellable leases.

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**18 Trade and Other Payables**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Trade payables	265 845	167 881
Advances received	8 653	2 175
Taxes payable (other than Income tax)	5 382	2 968
Payables to staff	9 681	4 049
Other current payables	1 170	165
Finance lease liability (Note 16)	261	1 044
<b>Trade and other payables</b>	<b>290 992</b>	<b>178 282</b>

**19 Analysis of Revenue by Category**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Sales of trading stock	1 090 861	559 129
Sales of self-produced catering products	77 150	38 641
Rental income	21 578	15 014
Revenue from advertising services	4 213	1 516
<b>Total revenue</b>	<b>1 193 802</b>	<b>614 300</b>

**20 General, Selling and Administrative Expenses**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Labour costs	(90 067)	(35 254)
Depreciation and amortization	(32 604)	(12 838)
Advertising and marketing	(7 763)	(4 346)
Operating leases	(5 280)	(3 058)
Repairs and maintenance costs	(4 834)	(4 080)
Communication and utilities	(24 449)	(10 485)
Materials and supplies	(3 436)	(1 503)
Security expenses	(9 049)	(4 057)
Insurance and bank commission	(3 661)	(1 928)
Legal and professional expenses	(3 181)	(1 793)
Operating taxes	(11 458)	(3 004)
Other costs	(3 518)	(2 553)
<b>Total general, selling and administrative expenses</b>	<b>(199 300)</b>	<b>(84 899)</b>

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Labour costs are presented gross, including related taxes. The amount of labour costs includes:

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Wages and salaries	(46 773)	(24 387)
Payroll taxes	(24 420)	(6 481)
Employee benefits	(18 256)	(4 191)
Other operating income and expenses	(618)	(195)
<b>Total labour costs</b>	<b>(90 067)</b>	<b>(35 254)</b>

**21 Other Operating Income and Expenses**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Profit/(loss) from sale of fixed assets	(371)	194
Profit/(loss) from sale of other assets	782	(400)
Loss from write-off of receivables	(1 247)	(1 213)
Gain from revaluation of Investment Property	18 237	2 726
Loss from revaluation of Property, Plant and Equipment	(29 975)	-
Other operating income and expenses	(147)	(553)
<b>Total other operating income and expenses</b>	<b>(12 721)</b>	<b>754</b>

Revaluation of property, plant and equipment performed as at 31 December 2007 resulted in an impairment loss for some of the items, mainly buildings in the amount of \$29 975 thousand. This loss has been presented in the Note above as loss from impairment of property, plant and equipment.

**22 Finance Costs**

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Interest accrued on loans and borrowings	(35 509)	(23 455)
Finance leasing costs	(647)	(133)
Other finance costs	(946)	(626)
<b>Total finance costs recognized in the income statement</b>	<b>(37 102)</b>	<b>(24 214)</b>

During 2007 the Group has capitalized interests in the value of property, plant and equipment and investment property. The amount of capitalized interest represents \$9 630 thousand (2006: \$5 792 thousand).

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**23 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
Current tax	16 058	14 415
Deferred tax	951	3 266
<b>Income tax expense for the year</b>	<b>17 009</b>	<b>17 681</b>

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

<i>In thousands of US Dollars</i>	<b>2007</b>	<b>2006</b>
<b>IFRS profit before tax</b>	<b>30 284</b>	<b>40 496</b>
Theoretical tax charge at statutory Russian rate (2007: 24%; 2006: 24%)	7 268	9 720
Effect of income taxable at rates different from standard statutory rates	(228)	(1 006)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Inventory shrinkage expenses	5 197	4 355
- Various other non-deductible expenses	4 772	4 612
<b>Income tax expense for the year</b>	<b>17 009</b>	<b>17 681</b>

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2006: 24%).



**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Recognized deferred tax assets and liabilities are attributable to the following:

<i>In thousands of US Dollars</i>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Investment property	-	-	(5 777)	(598)	(5 777)	(598)
Property, plant and equipment	-	2 338	(76 772)	(49 836)	(76 772)	(47 498)
Construction in progress	-	4 592	(1 506)	-	(1 506)	4 592
Investments	189	610	-	-	189	610
Other non-current assets	-	-	(997)	(6 547)	(997)	(6 547)
Inventories	1 562	723	-	-	1 562	723
Trade and other receivables	597	104	-	-	597	104
Borrowings	-	-	(33)	(70)	(33)	(70)
Deferred income	87	130	-	-	87	130
Trade and other payables	2 130	-	-	(392)	2 130	(392)
Tax losses carry-forwards	552	-	-	-	552	-
<b>Tax assets/(liabilities)</b>	<b>5 117</b>	<b>8 497</b>	<b>(85 085)</b>	<b>(57 443)</b>	<b>(79 968)</b>	<b>(48 946)</b>
Set off of tax	(2 357)	(8 124)	2 357	8 124	-	-
<b>Net tax assets/(liabilities)</b>	<b>2 760</b>	<b>373</b>	<b>(82 728)</b>	<b>(49 319)</b>	<b>(79 968)</b>	<b>(48 946)</b>

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

<i>In thousands of US Dollars</i>	<b>Balance 1 Jan 2006</b>	<b>Recognised in profit or loss</b>	<b>Recognised in revaluation reserve</b>	<b>Recognised in equity</b>	<b>Translation difference</b>	<b>Balance 31 Dec 2006</b>	<b>Recognised in profit or loss</b>	<b>Recognised in revaluation reserve</b>	<b>Translation difference</b>	<b>Balance 31 Dec 2007</b>
Investment property	74	(654)	-	-	(18)	(598)	(4 377)	-	(802)	(5 777)
Property, plant and equipment	(38 055)	486	(10 399)	4 195	(3 725)	(47 498)	133	(25 466)	(3 941)	(76 772)
Construction in progress	3 927	290	-	-	375	4 592	(6 173)	-	75	(1 506)
Investments	652	(99)	-	-	57	610	(446)	-	25	189
Other non-current assets	(3 259)	(2 891)	-	-	(397)	(6 547)	5 783	-	(233)	(997)
Inventories	114	579	-	-	30	723	705	-	134	1 562
Trade and other receivables	(359)	481	-	-	(18)	104	467	-	26	597
Borrowings	(93)	31	-	-	(8)	(70)	40	-	(3)	(33)
Deferred income	163	(47)	-	-	14	130	(50)	-	7	87
Trade and other payables	(79)	(296)	-	-	(17)	(392)	2 437	-	85	2 130
Tax loss carry-forwards	1 082	(1 146)	-	-	64	-	530	-	22	552
<b>Net tax assets/(liabilities)</b>	<b>(35 833)</b>	<b>(3 266)</b>	<b>(10 399)</b>	<b>4 195</b>	<b>(3 643)</b>	<b>(48 946)</b>	<b>(951)</b>	<b>(25 466)</b>	<b>(4 605)</b>	<b>(79 968)</b>

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**24 Subsidiaries**

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

	Country of incorporation	Ownership/voting	
		2007	2006
LLC O'Key	Russian Federation	100%	100%
JSC Dorinda	Russian Federation	100%	100%
JSC Mir Torgovli	Russian Federation	100%	100%
Axus Financial Ltd	BVI	100%	100%
Stoxx Investments Ltd	BVI	100%	100%
Starligton Ltd	Cyprus	100%	100%
Batisto Ltd	Cyprus	100%	100%
O'Key Investments (Cyprus) Ltd	Cyprus	100%	100%
Denovex Limited	Cyprus	100%	-
Dextenco Co. Limited	Cyprus	100%	-
Filorus Limited	Cyprus	100%	-
Legondia Co. Limited	Cyprus	100%	-
Lonmax Limited	Cyprus	100%	-
Marcopia Limited	Cyprus	100%	-
Naviline Limited	Cyprus	100%	-
Nivanex Limited	Cyprus	100%	-
Ricandano Co. Limited	Cyprus	100%	-
LLC Dorinda Invest	Russian Federation	100%	-
LLC Premium	Russian Federation	100%	-
LLC Elart	Russian Federation	100%	-
LLC Legion	Russian Federation	100%	-
LLC Dorinda Development	Russian Federation	100%	100%
LLC O'Key Group Management	Russian Federation	100%	-
LLC O'Key Logistics	Russian Federation	100%	100%
LLC Vendor (Special Purpose Entity)	Russian Federation	-	-
PLC KSSK	Russian Federation	100%	100%
JSC DRSU-34	Russian Federation	100%	100%
JSC Baltika	Russian Federation	100%	100%
LLC Dorinda-Murmansk	Russian Federation	100%	100%
LLC O'Key-Finans	Russian Federation	100%	100%
LLC Baltyisky prostor	Russian Federation	100%	100%
LLC Vega	Russian Federation	100%	100%
LLC Gradstroytsentr	Russian Federation	100%	100%
LLC Grand	Russian Federation	100%	100%
LLC Dunaiskoe	Russian Federation	100%	100%
LLC Invest-Neva	Russian Federation	100%	100%
LLC Krona	Russian Federation	100%	100%
LLC Krona-1	Russian Federation	100%	100%
LLC Reiki	Russian Federation	100%	100%
LLC Severnoe	Russian Federation	100%	100%
LLC Skladservis	Russian Federation	100%	100%
LLC Sovagro	Russian Federation	100%	100%
LLC Stroymarket	Russian Federation	100%	100%
LLC Stroyexpert	Russian Federation	100%	100%
LLC Talan	Russian Federation	100%	100%
LLC Tellara	Russian Federation	100%	100%
LLC Triumfalnaya Marka	Russian Federation	100%	-
LLC Donskaya Zvezda	Russian Federation	100%	-
LLC N.E.F.-Saint-Petersburg	Russian Federation	100%	-
LLC Sinopskaya naberezhnaya	Russian Federation	100%	-

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**25 Non-current assets held for sale**

Assets and liabilities of LLC Soyuz (joint-venture of the Group) are presented as a disposal group held for sale following the commitment of the Group's management to sell this entity to third party buyer. The expected consideration exceeds the net assets of the disposed entity.

*In thousands of US Dollars*

**2007**

Construction in progress	2 008
Prepayments	160
VAT receivable	4
Cash and bank	32
	<b>2 204</b>
Short-term borrowings	2 028
Other accounts payable	185
	<b>2 213</b>

**26 Contingencies, Commitments and Operating Risks**

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

**Tax legislation.** The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

**Assets pledged and restricted.** At 31 December 2007 the Group has the following assets pledged as collateral:

<i>In thousands of US Dollars</i>	<b>Notes</b>	<b>31 December 2007</b>	<b>31 December 2006</b>
Fixed assets (carrying value)	8	381 968	293 428
Investment property (carrying value)	9	103 252	38 746
Initial cost of land lease (carrying value)	10	4 859	3 849
<b>Total</b>		<b>490 079</b>	<b>336 023</b>

**Commitments.** The Group has capital commitments to acquire property, plant and equipment amounting to \$75 937 thousand as at 31 December 2007 (2006: \$84 245 thousand).

## **27 Financial Risk Management**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks. The Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. It also provides quantitative disclosures concerning those risks.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### **Credit risk**

Credit risk is a risk of financial loss to the Group if a customer or counterparty to financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment.

#### *Trade receivables and other receivables*

The Group has no considerable balance of trade receivables because the majority of the customers are retail consumers, who are not provided with any credit. Therefore the Group's trade receivables primarily include receivables from provision of advertising services. Usually the Group provides advertising services to suppliers of goods sold in O'Key outlets. Thus the credit risk in part of Trade receivables is mostly managed through procedures for selection of suppliers. Trade receivables also include receivables from wholesales and providing of rent services, but their share in total trade receivables is not significant.

Other receivables mainly include bonuses from suppliers which are to be paid in cash. Bonuses are received from suppliers of the Group thus the credit risk is mostly managed through procedures for selection of suppliers.

The Group regularly reviews its accounts receivable balances for doubtful accounts receivable. Provision is established to cover material doubtful debts.

#### *Investments*

The only investments of the Group are loans mainly issued to the related parties, consequently credit risk is considered to be remote.

#### *Guarantees*

The Group usually provides financial guarantees only to related parties. Providing financial guarantees to parties other than companies under common control of the ultimate shareholders requires authorization of the shareholders.

### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management is a responsibility of the Treasury under the supervision of the Group's Financial Director. In accordance with the liquidity risk management policy the responsibilities of the Group's Treasury are:

- making payments only according to the approved budget
- following the borrowing strategy described in the liquidity risk management policy
- building effective relationships with banks and other credit institutions.

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return of risk.

#### *Currency risk*

The Group holds majority of its business in Russian Federation and collects receivables nominated mainly in Russian Roubles. However financial liabilities of the Group are also nominated in other currencies, such as Euro, US Dollar, etc. Thus the Group is exposed to currency risk, which may materially influence the financial position and financial results of the Group through the change in carrying value of financial liabilities and amounts on foreign exchange rate gains or losses. In 2007 the dynamics of currency exchange rates were showing downwards tendency, which resulted in foreign exchange gain for the Group. For 2008 the Group's management intends to use hedging instruments to secure its financial liabilities nominated in foreign currencies, especially in US dollars.

#### *Interest rate risk*

The Group has material exposure to interest rate risk. At the reporting date 80% of the Group's financial liabilities were subject to repricing within 6 months after the balance sheet date. The Group manages this risk through thorough analysis of the sufficiency of the funds to repay the debts, when they fall due and re-financing of the current borrowing through EBRD loan (refer to the Note 29).

### **Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the year. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements, except for statutory requirement in relation to minimum level of share capital; the Group follows this requirement. Also some of the bank covenants impose capital requirements on the Group. The Group follows such requirements (the breaches of covenants are discussed further in the financial statements).

Following tables contain quantitative disclosures regarding the Group's exposure to financial risks.

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Financial income and expense**

**Recognised in profit or loss**

<i>In thousands of USD</i>	<b>2007</b>	<b>2006</b>
Interest income on bank deposits	63	18
Interest income on loans issued	489	286
Other financial income	297	-
Net foreign exchange gain	25 668	22 729
<b>Financial income</b>	<b>26 517</b>	<b>23 033</b>
Interest expense on financial liabilities measured at amortised cost	(37 102)	(24 214)
<b>Net finance costs</b>	<b>(10 585)</b>	<b>(1 181)</b>

The above financial income and expenses include the following in respect of assets (liabilities) not at fair value through profit or loss:

<i>In thousand of USD</i>	<b>2007</b>	<b>2006</b>
Total interest income on financial assets	849	304
Total interest expense on financial liabilities	(37 102)	(24 214)

**Credit risk**

Due to the fact that the Group's principal activities are located in Russian Federation the credit risk is mainly associated with domestic market. The credit risks associated with foreign customers are considered to be remote, as there are only few foreign customers and they were properly assessed for creditability.

The aging of Trade and other receivables (including discounts receivable from suppliers) at the reporting date was:

<i>In thousands of US dollars</i>	<b>Gross</b>	<b>Net of allowance for impairment</b>
Less than 90 days old	21 411	21 221
Over 90 days old	502	502
Over 180 days old	17 137	16 804
Over 360 days old	563	206
<b>Total</b>	<b>39 613</b>	<b>38 733</b>

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

In 2007 the Group has recognised an impairment loss in amount of \$880 thousand.

The movement in the allowance for impairment established in respect of trade and other receivables during the year was as follows:

<i>In thousands of US dollars</i>	<b>2007</b>
Balance at 1 January 2007	-
Impairment loss	880
Balance at 31 December 2007	880

**Liquidity risk**

The following are the contractual maturities of financial liabilities, including the balance of interest payable:

**31 December 2007**

<i>In thousands of USD</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>1-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>						
Secured bank loans	391 088	(391 088)	(145 995)	(39 962)	(154 890)	(50 241)
Finance lease liabilities	2 743	(2 743)	-	(261)	(2 482)	-
Unsecured loans from other companies	1 324	(1 324)	(23)	(1 301)	-	-
Unsecured loans from related parties	128 208	(128 208)	(3 064)	(96 035)	(29 109)	-
Trade and other payables	287 981	(287 981)	(287 981)	-	-	-
<b>Total</b>	<b>811 344</b>	<b>(811 344)</b>	<b>(437 063)</b>	<b>(137 559)</b>	<b>(186 481)</b>	<b>(50 241)</b>

**31 December 2006**

<i>In thousand of USD</i>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>						
Secured bank loans	268 215	(268 215)	(10 335)	(28 708)	(223 362)	(5 810)
Finance lease liabilities	2 705	(2 705)	(522)	(522)	(1 661)	-
Unsecured loans from other companies	2 797	(2 797)	(1 965)	(13)	(819)	-
Unsecured loans from related parties	135 226	(135 226)	-	-	(135 226)	-
Trade and other payables	176 679	(176 679)	(176 679)	-	-	-
<b>Total</b>	<b>585 622</b>	<b>(585 622)</b>	<b>(189 501)</b>	<b>(29 243)</b>	<b>(361 068)</b>	<b>(5 810)</b>



**DORINDA HOLDING S.A. GROUP**  
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The Group constantly monitors compliance with the banks covenants. However in 2007 the Group did not comply with the covenants in two cases, which were unavoidable in the managements' view. In both cases the Group obtained letters from the banks subsequent to year-end, confirming that the banks shall not use its right to demand early redemption, but in accordance with IFRS, those have been reclassified as current liabilities as at December 31, 2007.

The Group has substantial financial assets (\$131 866 thousand as at 31 December 2007) for repayment of loans. In addition, subsequent to the balance sheet date the Group has entered into the agreement with EBRD to obtain a loan (refer to the Note 29), which is planned to be partly used to re-finance the short-term liabilities.

**Currency risk**

*Exposure to currency risk*

The Groups balances denominated in foreign currencies were as follows:

<i>In thousands of US dollars</i>	2007		2006	
	Euro	USD	Euro	USD
Trade and other receivables	28	-	-	-
Secured bank loans	-	(205 106)	-	(215 571)
Unsecured loans from related parties	-	(43 000)	-	(43 000)
Trade and other payables	(396)	(457)	-	-
Finance lease liabilities		(2 743)	-	(2 705)
<b>Gross balance sheet exposure</b>	<b>(368)</b>	<b>(251 306)</b>	<b>-</b>	<b>(261 276)</b>

The following exchange rates applied during the year:

US Dollar equals	Average rate		Reporting date rate	
	2007	2006	2007	2006
Russian Rouble	25.5762	27.1852	24.5462	26.3311
Euro	0.7304	0.7969	0.6831	0.7589

*Sensitivity analysis*

A 10 percent strengthening of the Russian Rouble against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2006.

<i>Effect in thousands of US dollars</i>	<b>Profit or loss</b>
<b>31 December 2007</b>	
USD	25 131
Euro	37
<b>31 December 2006</b>	
USD	26 128
Euro	-

A 10 percent weakening of the Russian Rouble against the above currencies at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all variables remain constant.

**DORINDA HOLDING S.A. GROUP**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Interest rate risk**

*Profile*

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was mainly represented by the bank loans and loans from related parties (refer to Note 14). The Group does not have any derivatives to hedge interest rate risk.

	Carrying amount	Carrying amount
<i>In thousands of US Dollars</i>	2007	2006
<b>Fixed rate instruments</b>		
Financial assets	8 513	2 771
Financial liabilities	440 692	328 840
<b>Variable rate instruments</b>		
Financial liabilities	82 671	80 103

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. Cash flow was calculated for the one year period ignoring the capitalisation of interests.

	Profit or loss 2007		Profit or loss 2006	
<i>In thousands of US dollars</i>	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>31 December 2007</b>				
Variable rate instruments	(823)	823	(798)	798
<b>Cash flow sensitivity</b>	<b>(823)</b>	<b>823</b>	<b>(798)</b>	<b>798</b>

**28 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 financial assets carried at amortised cost is normally their carrying amount. Carrying amounts of trade receivables and loans issued approximate fair values.

**Liabilities carried at amortised cost.** The fair value of the Group's liabilities carried at amortised cost does not differ materially from its carrying amount.

**29 Events Subsequent to the Balance Sheet Date**

Subsequent to the balance sheet date the Group has acquired a land plot with a cost of \$1 125 thousand and lease rights for two land plots amounting to \$13 683 thousand. Also the Group has acquired several retail outlets in Volgograd and Murmansk with a cost amounting to \$14 666 thousand.

Subsequent to the balance sheet date the Group has taken decisions:

- to enter into loan agreement with EBRD in respect of the long-term borrowings amounting to \$200 000 thousand. EBRD loan bears interest determined as LIBOR plus 3.15% and should be repaid during 5 years from each tranche. The portion of EBRD loan in the amount of \$86 000 thousand will be used to re-finance short-term borrowings of the Group.
- to enter into several credit line agreements and loan agreements with exposure totalling \$199 173 thousand.
- to pledge assets for security of the Group's obligations amounting to \$124 858 thousand (at fair value of assets).