Open Joint Stock Company “Magnit” and its subsidiaries

Independent Auditors’ Report

Consolidated Financial Statements
Year Ended December 31, 2006

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

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OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group at December 31, 2006 and the results of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

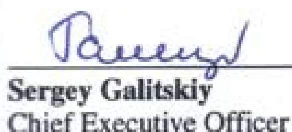
In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2006 were approved by the Board of Directors of Open Joint Stock Company "Magnit" and authorized to be signed and issued on behalf of the Board on April 17, 2007 by:



Sergey Galitskiy
Chief Executive Officer

Alexander Prisyazhnyuk
Chief Financial Officer

April 17, 2007
Moscow, Russia

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company "Magnit":

Report on the financial statements

We have audited the accompanying financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group"), which comprise of the balance sheet as at December 31, 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

April 17, 2007

OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006
(In thousands of US Dollars)

	Notes	2006	2005
REVENUE	9	2,505,030	1,577,672
COST OF SALES	10	(2,046,147)	(1,312,878)
GROSS PROFIT		458,883	264,794
Selling, general and administrative expenses	11	(365,388)	(200,966)
OPERATING PROFIT		93,495	63,828
Interest income	12	1,322	9
Interest expense	13	(14,356)	(12,881)
Net finance costs		(13,034)	(12,872)
Other income	14	7,426	4,253
Other expenses	15	(6,422)	(5,179)
PROFIT BEFORE INCOME TAX		81,465	50,030
INCOME TAX	16	(24,536)	(13,198)
PROFIT FOR THE YEAR		56,929	36,832
EARNINGS PER SHARE	17		
Basic (in US Dollars per share)		0.81	8.80
Diluted (in US Dollars per share)		0.81	8.80

The notes on pages 8 to 33 form an integral part of these consolidated financial statements.
Acquaintance
Signed on behalf of the Board:

Sergey Galitskiy
Chief Executive Officer

April 17, 2007

Alexander Prisyazhnyuk
Chief Financial Officer

April 17, 2007

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2006
(In thousands of US Dollars)

	Notes	2006	2005
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	18	468,401	160,108
Intangible assets	19	927	350
Goodwill		238	-
Long-term investments	20	322	-
		469,888	160,458
CURRENT ASSETS:			
Merchandise	21	247,466	151,276
Trade accounts receivable	22	13,945	979
Value added tax and other taxes receivable	23	11,387	19,150
Advances paid	8, 24	58,070	21,144
Other receivables	25	5,659	6,336
Short-term investments	26	2,169	-
Cash and cash equivalents	27	89,789	45,771
		428,485	244,656
TOTAL ASSETS		898,373	405,114
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	28	27	23
Share premium	28	190,745	143
Retained earnings		112,366	49,022
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT:		303,138	49,188
MINORITY INTEREST		545	-
TOTAL EQUITY		303,683	49,188
NON-CURRENT LIABILITIES:			
Long-term loans and bonds	29	82,922	79,351
Long-term obligations under finance leases	30	6,424	3,466
Deferred tax liabilities	16	16,270	10,978
		105,616	93,795
CURRENT LIABILITIES:			
Trade accounts payable	31	269,116	132,223
Other payables and accrued expenses	32	38,872	33,422
Taxes payable	33	13,951	19,113
Short-term obligations under finance leases	8, 30	6,716	2,554
Short-term loans	34	160,419	74,819
		489,074	262,131
TOTAL EQUITY AND LIABILITIES		898,373	405,114

The notes on pages 8 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006

(In thousands of US Dollars)

	Share capital	Share premium	Future distribution reserve	Retained earnings	Equity attributable to share-holders of the parent	Minority interest	Total
Balance at January 1, 2005	**23**	**148**	**1,554**	**13,385**	**15,110**	**-**	**15,110**
Profit for the year	-	-	-	36,832	36,832	-	36,832
Group reorganization (Note 3)	-	-	(1,498)	-	(1,498)	-	(1,498)
Currency translation differences	-	(5)	(56)	(1,195)	(1,256)	-	(1,256)
Balance at December 31, 2005	**23**	**143**	**-**	**49,022**	**49,188**	**-**	**49,188**
Profit for the year	-	-	-	56,929	56,929	-	56,929
Acquisition of subsidiaries	-	-	-	-	-	528	528
Additional issue of shares (Note 28)	2	184,605	-	-	184,607	-	184,607
Currency translation differences	2	5,997	-	6,415	12,414	17	12,431
Balance at December 31, 2006	**27**	**190,745**	**-**	**112,366**	**303,138**	**545**	**303,683**

The notes on pages 8 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006
(In thousands of US Dollars)

	Notes	2006	2005
OPERATING ACTIVITIES:			
Profit before income tax		81,465	50,030
Adjustments for:			
Depreciation		28,949	15,056
Amortization		152	-
Loss on disposal of property, plant and equipment		463	108
Change in provision for doubtful receivables		1,900	546
Other adjustments		855	(362)
Finance costs, net		13,034	12,872
Operating cash flow before movements in working capital		126,818	78,250
(Increase)/decrease in trade accounts receivable		(13,149)	3,357
Increase in advances paid		(34,564)	(18,557)
Decrease/(increase) in other receivables		930	(3,682)
Decrease/(increase) in taxes receivable		9,491	(5,293)
Increase in merchandise		(77,509)	(77,686)
Increase in trade accounts payable		116,786	28,316
Increase in other payables		2,243	35,643
(Decrease)/increase in taxes payable		(2,550)	7,667
Cash generated by operations		128,496	48,015
Income tax paid		(24,581)	(3,161)
Interest paid		(12,866)	(11,436)
Net cash generated by operating activities		91,049	33,418
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, net of cash acquired		(383)	-
Purchase of property, plant and equipment		(300,889)	(78,339)
Purchase of intangible assets		(296)	(172)
Proceeds from disposal of property, plant and equipment		2,253	1,214
Long-term loans		(312)	-
Purchase of investments		(56,528)	(5,619)
Proceeds from sale of investments		54,950	5,921
Cash cost of shares acquired during the Group reorganization		-	(1,527)
Net cash used in investing activities		(301,205)	(78,522)
FINANCING ACTIVITIES:			
Proceeds from borrowings		599,826	679,311
Repayment of borrowings		(527,756)	(597,866)
Payment of bond issue costs		-	(464)
Repayment of obligations under finance leases		(8,015)	(8,608)
Proceeds from issue of ordinary shares		184,607	-
Net cash generated by financing activities		248,662	72,373
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		5,512	(1,240)
NET INCREASE IN CASH AND CASH EQUIVALENTS		44,018	26,029
CASH AND CASH EQUIVALENTS, beginning of year		45,771	19,742
CASH AND CASH EQUIVALENTS, end of year	27	89,789	45,771

The notes on pages 8 to 33 form an integral part of these consolidated financial statements.

1. NATURE OF THE BUSINESS

Close Joint Stock Company "Magnit" was incorporated in Krasnodar, Russian Federation, in November 2003, and subsequently in January 2006 changed its legal form to Open Joint Stock Company "Magnit" (the "Company" or OJSC "Magnit"). There was no change in the principal activities or shareholders as a result of this.

OJSC "Magnit" is a holding company for a group of entities (the "Group") that operate in the retail trade of consumer goods under the "Magnit" name. It is also engaged in property rental to Group companies. The principal operating office of the Group is situated at 185 Levanevskogo St., 350002 Krasnodar, Russian Federation.

At December 31, 2006 and 2005 the shareholder's structure of the Company was as follows:

	2006		2005	
Shareholder	**Number of shares**	**Ownership interest, %**	**Number of shares**	**Ownership interest, %**
Galitski S.N.	36,720,000	51.00%	43,157,124	66.45%
Labini Investments Ltd. (Cyprus)	7,660,664	10.64%	14,612,994	22.50%
Lavreno Ltd. (Cyprus)	5,033,455	6.99%	-	-
Gordeichuk V.E.	3,114,100	4.33%	3,572,082	5.50%
Other (Group's management)	2,434,359	3.38%	3,604,554	5.55%
Free float	17,037,422	23.66%	-	-
Total	**72,000,000**	**100%**	**64,946,754**	**100%**

The principal activities of the Group's subsidiaries as of December 31, 2006, all of which are incorporated in the Russian Federation, and the effective rates of ownership are as follows:

Company name	Principal Activity	Effective % held
CJSC "Tander"	Food retail and wholesale	100%
LLC "Magnit Finance"	Issuer of the Group's bonds	100%
LLC "BestTorg"	Food retail in the city of Moscow and the Moscow region	100%
LLC "Tander-Magnit"	Food retail in the Moscow region	100%
LLC "Selta"	Transportation services for the Group	100%
LLC "Tander-Petersburg"	Food retail in Saint-Petersburg	100%
LLC "Magnit-Nizhniy Novgorod"	Holding company of LLC "Tandem"	51%
LLC "Tandem"	Food retail in Nizhniy Novgorod	51%
LLC "Alkotrading"	Licenses' holder for alcohol sales	100%
LLC "Vals"	Food retail in Nizhniy Novgorod	51%

The Group's principal business activities are within the Russian Federation. As of December 31, 2006 and 2005 the Group had the following number of retail shops in Federal districts of the Russian Federation:

Federal district	Number of shops 2006	Number of shops 2005
Southern	782	685
Volga	538	368
Central	461	379
Urals	28	8
North-Western	84	61
Total number of shops	**1,893**	**1,501**

The average number of employees of the Group for the years ended December 31, 2006 and 2005 was 37,173 and 24,870 people, respectively. The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. The Group does not have any private pension funds.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2006. The adoption of these new and revised Standards and Interpretations did not result in changes to the Group's accounting policies.

At the date of approval of the Group's consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

New or revised Standards and Interpretations	Effective for accounting periods beginning on or after
Amendment to IAS 1 "Capital Disclosures"	January 1, 2007
IFRS 7 "Financial Instruments: Disclosures"	January 1, 2007
IFRS 8 "Operating Segments"	January 1, 2009
IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"	March 1, 2006
IFRIC 8 "Scope of IFRS 2"	May 1, 2006
IFRIC 9 "Reassessment of Embedded Derivatives"	June 1, 2006
IFRIC 10 "Interim Financial Reporting and Impairment"	November 1, 2006
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"	March 1, 2007
IFRIC 12 "Service Concession Arrangements"	January 1, 2008

The impact of adoption of these Standards and Interpretations in the preparation of consolidated financial statements in the future periods is currently being assessed by the Group's management.

3. GROUP REORGANIZATION

In 2005 and early 2006 the Group reorganized its corporate structure, which resulted in OJSC "Magnit" being the holding company of the Group and its subsidiaries. During September-December 2005 the shareholders of CJSC "Tander" contributed their shares to the share capital of CJSC "Magnit" thus making CJSC "Magnit" the holding company of the Group. In January 2006 CJSC "Magnit" changed its legal status to OJSC "Magnit".

The reorganization of the corporate structure of the Group was made as follows:

1. On March 3, 2005 CJSC "Tander" repurchased 23,723,570 ordinary shares of RUB 0.01 (7.12% of share capital) from Mr. Soloviev P.A. for RUB 42,600 thousand (USD 1,535 thousand) fully paid in cash and decreased its share capital by redemption of these shares;

2. Various shareholders of CJSC "Tander" and CJSC "Magnit" sold and purchased shares in individual companies;

3. On September 14, 2005 CJSC "Magnit" issued 2,758,153 ordinary shares of RUB 0.01 each for RUB 4,138 thousand (USD 143 thousand);

4. On September 26, 2005 CJSC "Magnit" purchased 33,890,000 preferred shares of CJSC "Tander" of RUB 0.01 (10.16% of share capital) from OKWARD INVEST & TRADE INC. (Cyprus) for RUB 508 thousand (USD 18 thousand) fully paid in cash;

5. Exchange of 275,815,300 ordinary shares in CJSC "Tander" of RUB 0.01 each by the various shareholders for 2,758,153 ordinary shares in CJSC "Magnit" of RUB 0.01 each at dates from September 26 to November 1, 2005;

6. Sale of 1,130 ordinary shares in CJSC "Tander" of RUB 0.01 each for RUB 510 thousand (USD 18 thousand) to CJSC "Magnit" by various shareholders on November 2, 2005;

7. On December 5, 2005 and December 16, 2005 CJSC "Tander" issued 4,000,000,000 ordinary shares of RUB 0.01 each for 80,000 thousand RUB (USD 2,779 thousand);

8. On December 7, 2005 CJSC "Magnit" repurchased its 150,000 preferred shares of RUB 0.01 each and decreased its share capital following their redemption;

9. On December 21, 2005 CJSC "Magnit" issued bonus capital of 61,338,601 ordinary shares of RUB 0.01 each. They were fully paid from net income.

Movements in share capital and share premium are further disclosed in Note 28.

4. PRESENTATION OF FINANCIAL STATEMENTS

Basis of presentation – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The term IFRS includes standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB.

All entities of the Group maintain their accounting records in Russian Roubles in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principals and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's Russian statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for the valuation of property, plant and equipment as permitted by IFRS 1 "First Time Adoption

of International Financial Reporting Standards" on first-time adoption and the revaluation of certain non-current assets and fair value adjustments of subsidiaries acquired in accordance with IFRS 3 "Business combinations".

Use of estimates and assumptions – The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Functional and presentation currency – The functional currency of the Group's entities, which reflects the economic substance of its operations, is the Russian Ruble ("RUB").

The presentation currency of the consolidated financial statements is the United States of America Dollar ("USD") as it is a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation from RUB (functional currency of the Company) into USD (presentation currency) is made as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented;
- All items included in the consolidated equity, other than net profit for the year, are translated at historical exchange rates;
- All income and expenses in each consolidated income statement are translated at the average exchange rates for the years presented; and
- In the consolidated cash flow statement, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at the average exchange rates for the years presented. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of foreign exchange rates on cash and cash equivalents".

The RUB is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

The closing rate for December 31, 2006 and for 2005 was 26.3311 RUB/1 USD and 28.7825 RUB/1 USD, respectively. The average rate for 2006 and 2005 was 27.1852 RUB/1 USD and 28.2262RUB/1 USD, respectively.

Earnings per share – Earnings per share have been determined using the weighted average number of the Company's shares outstanding during the years ended December 31, 2006 and 2005 after giving consideration to the effect of the reorganization of the Group's corporate structure detailed in Note 3. The Group does not have any potentially dilutive equity instruments.

5. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the OJSC "Magnit" (the Company) and other entities controlled by the OJSC "Magnit" (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Gain or loss on acquisition of shares in subsidiaries from parties related by the means of common control, representing the difference between the cost of acquisition and the Group's interest in carrying value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition, is recognised directly in equity.

Business combinations – Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates – An associate is an enterprise over which the Group is in a position to exercise significant influence, and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results and the assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interest that, in substance form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as the part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition after re-assessment is recognised immediately in the income statement.

Where a group enterprise transacts with the associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Goodwill – Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or associate at the date of acquisition. Goodwill arising on the acquisition of an associate is included within the carrying amount of that associate. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units (CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

Revenue recognition – The Group generates and recognizes sales to retail customers at the point of sale in its stores; and to wholesale customers at the point of sale in its distribution centers. Revenues are measured at the fair value of the consideration received or receivable and recognized net of value added tax and are reduced for estimated customer returns, rebates and other similar allowances.

Revenue from rendering of services is recognised at the time the services are provided.

Property, plant and equipment – Property, plant and equipment, other than buildings purchased prior to January 1, 2004, is stated at cost. Buildings purchased prior to January 1, 2004 are stated at fair values, determined by independent professionally qualified appraisers. Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to income statement as incurred.

Where historical cost information was not available, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value cost as of the date of transition to IFRS. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value. Some of the property, plant and equipment is of a specialized nature and valued at their depreciated replacement cost. For each item of property, plant and equipment, its new replacement cost was then adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence, in arriving at the fair value of the asset. Buildings placed into operation are initially recognized at cost.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful economic lives of the related assets are:

Description	**Useful life, years**
Buildings	30
Machinery and equipment	3-30
Other fixed assets	5-30
Land	infinite

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Intangible assets – Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

Rental rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, rental rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation of rental rights and other intangible assets is charged to income statement. Amortisation is charged on a straight-line basis over their estimated useful lives.

Impairment of tangible non-current assets and intangible assets excluding goodwill – At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation reserve decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation reserve increase.

Finance leases – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Merchandise – Merchandise is stated at the lower of cost or net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Provisions – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Vendor allowances – The Group receives various types of allowances from vendors in the form of slotting fees, volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor or the cost of promotional activities conducted by the Group that benefit the vendor.

Allowances received from vendors are presumed to be a reduction in prices paid for the product and are recognized in cost of sales.

Income taxes – Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available

against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in the consolidated income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Retirement benefit costs – The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. Any related expenses are recognized in the income statement as incurred. There is no unfunded element at the balance sheet date.

Segment reporting – The Group's business operations are located in the Russian Federation and relate primarily to food retail. Therefore, business activities are subject to the same risks and returns and addressed in the consolidated financial statements of the Group as one reportable segment.

Earnings per share – Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

Financial assets

General description – Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"); held-to-maturity investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Effective interest method – The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL – Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments – Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

Loans and receivables – Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance

account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Financial liabilities and equity instruments issued by the group

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities – Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives and residual values of property, plant and equipment; impairment of assets; revenue recognition, customer loyalty programs and taxation.

Useful economic life and residual value of property, plant and equipment

The Group's property, plant and equipment, are depreciated using the straight-line method over their estimated useful lives which are determined based on the Group's management business plans and operational estimates, related to those assets.

The Group's management periodically reviews the appropriateness of the useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 “Revenue” and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

Customer loyalty programs

The Group operates customer loyalty programs and uses certain assumptions and estimates for its calculations based on past events and statistical methods.

The most significant estimates used in calculation of customer loyalty programs liabilities and costs include the following:

- The cost of bonus points; and
- Probability rate for conversion of accumulated points into actual purchases.

The Group’s management periodically reviews the appropriateness of its assumptions and estimates.

Taxation

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the Russian Federation tax legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

7. ACQUISITION OF SUBSIDIARIES

During 2006 the following subsidiaries were added to the Group:

Subsidiary	**Share in new subsidiary**
LLC “Magnit-Nizhniy Novgorod”	51.00%
LLC “Tandem”	51.00%

On January 30, 2006 OJSC “Magnit” formed a new subsidiary, LLC “Magnit-Nizhny Novgorod”, for retail trade in the city of Nizhny Novgorod.

OJSC "Magnit" owns 51% in LLC "Magnit-Nizhny Novgorod. The remaining 49% is held by three unrelated individuals who contributed LLC "Tandem" as their purchase consideration. The net assets of LLC "Tandem" contributed and the goodwill arising from this transaction are as follows:

	Fair value
Net asset acquired	289
Minority interest	(142)
Goodwill	224
Total consideration	**371**

Net assets of LLC "Tandem" were valued by independent professionally qualified appraisers at fair value as of January 1, 2006.

8. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated financial statements for the year ended December 31, 2005, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended December 31, 2006. This reclassification is presented below:

	2005		
	After reclassifications	Before reclassifications	Difference
Advances paid	21,144	23,586	(2,442)
Short-term obligations under finance leases	2,554	4,996	(2,442)

In addition, certain categories of Property, Plant and Equipment have been reclassed.

9. REVENUE

Revenue for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Retail	2,460,955	1,552,559
Wholesale	44,075	25,113
Total	**2,505,030**	**1,577,672**

10. COST OF SALES

Cost of sales, classified by function, for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Retail	2,010,972	1,289,571
Wholesale	35,175	23,307
Total	**2,046,147**	**1,312,878**

Cost of sales, classified by nature, for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Cost of goods sold	2,037,850	1,298,167
Transportation expenses	33,921	20,053
Losses due to inventory shortages	8,995	7,158
Rebates and promotional bonuses received from suppliers	(34,619)	(12,500)
Total	**2,046,147**	**1,312,878**

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Payroll and related taxes	189,742	112,535
Rent and utilities	87,887	41,712
Depreciation	28,948	15,056
Packaging and raw materials	8,738	6,402
Taxes, other than income tax	7,039	1,729
Transportation	5,489	9
Repair and maintenance	5,282	10,396
Bank services	4,729	2,840
Fuel	4,308	2,336
Security	4,065	2,466
Bad debt provision	1,900	546
Provision for unused vacation	1,873	-
Advertising	1,622	22
Other expenses	13,766	4,917
Total	**365,388**	**200,966**

In year 2006 the Group accrued provision for unused vacation in the amount of USD 1,873 thousand. No provision was accrued previously, as no reliable estimate could be made of the amount of the obligation.

12. INTEREST INCOME

Interest income for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Interest on deposit	1,039	-
Interest on loans	283	9
Total	**1,322**	**9**

13. INTEREST EXPENSE

Interest expense for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Interest on bonds	6,503	689
Interest on loans	5,471	11,190
Interest on finance leases	2,382	1,002
Total	**14,356**	**12,881**

14. OTHER INCOME

Other income for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Third party transportation services	4,557	2,138
Release of allowance for previous-year tax risks	1,203	-
Marketing services	551	-
Gain on sale of securities	354	-
Information services	139	444
Bad debt allowance write-off	34	-
Advertising	18	-
Reimbursement of repair expenses	-	770
Claim assignation	-	242
Sundry	570	659
Total	**7,426**	**4,253**

15. OTHER EXPENSES

Other expenses for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Third party transportation services	2,277	1,335
Penalties and fines	820	69
Web money service	561	-
Loss on sale of fixed assets	463	108
Land improvement	244	-
Repairs	-	992
Rent and utilities	-	995
Sundry	2,057	1,680
Total	**6,422**	**5,179**

16. INCOME TAX

The Group's provision for income tax for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Current tax	20,472	10,135
Deferred tax	4,064	3,063
Total income tax expense	**24,536**	**13,198**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The movement for 2006 and 2005 in the Group's deferred tax position is as follows:

	2006	2005
Net liability at the beginning of the year	10,978	8,270
Charge for the year	4,064	3,063
Currency adjustment	1,228	(355)
Net liability at the end of the year	**16,270**	**10,978**

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2006 and 2005 is as follows:

	2006	2005
Deferred tax assets		
Provision for doubtful receivables	3	69
Total	**3**	**69**
Deferred tax liabilities		
Difference in value of property, plant and equipment	16,273	11,047
Total	**16,273**	**11,047**
Net deferred tax liability	**16,270**	**10,978**

The statutory tax rate effective in the Russian Federation, the location of all of the Group's entities, was 24% in 2006 and 2005. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group's income statement:

	2006	2005
Profit before income tax	81,465	50,030
Theoretical income tax at the statutory rate of 24%	(19,551)	(12,007)
Adjustments due to:		
Tax effect of losses due to inventory shortages	(2,019)	(1,717)
Tax effect of other income that is not taxable in determining taxable profit	-	526
Tax effect of other expenses that are not deductible in determining taxable profit	(2,966)	-
Income tax expense	**(24,536)**	**(13,198)**

17. EARNINGS PER SHARE

Earnings per share for the years ended December 31, 2006 and 2005 have been calculated on the basis of the net profit for the year and the weighted average number of common shares in issue during the year.

The calculation of earnings per common share for the years ended December 31, 2006 and 2005 was as follows:

	2006	2005
Profit for the year attributable to equity holders of the parent (in thousand of US Dollars)	56,929	36,832
Weighted average number of shares (in thousand of shares)	70,570	4,187
Basic earnings per share (in US Dollars)	**0.81**	**8.80**
Diluted earnings per share (in US Dollars)	**0.81**	**8.80**

18. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2006 and 2005 consisted of the following:

	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Equipment under finance lease	Total
Cost						
At January 1, 2005	24,888	50,027	7,481	18,147	2,679	103,222
Additions	-	32,274	667	45,398	8,729	87,068
Transfers	32,259	-	-	(32,259)	-	-
Disposals	(815)	(374)	(18)	-	-	(1,207)
Currency adjustment	(1,302)	(2,413)	(482)	(881)	(265)	(5,343)
At December 31, 2005	55,030	79,514	7,648	30,405	11,143	183,740
At January 1, 2006	55,030	79,514	7,648	30,405	11,143	183,740
Acquired on acquisition of subsidiary	-	459	13	517	-	989
Additions	-	62,715	25,756	212,418	13,954	314,843
Transfers	98,667	-	-	(98,667)	-	-
Disposals	(1,150)	(600)	(699)	(755)	-	(3,204)
Transfer from lease to fixed assets	-	-	381	-	(381)	-
Currency adjustment	8,285	9,435	1,537	6,513	1,478	27,248
At December 31, 2006	160,832	151,523	34,636	150,431	26,194	523,616
Accumulated Depreciation						
At January 1, 2005	(687)	(7,686)	(827)	-	(101)	(9,301)
Charge for the year	(1,121)	(12,658)	(426)	-	(851)	(15,056)
Eliminated on disposals	17	77	7	-	-	101
Currency adjustment	45	519	42	-	18	624
At December 31, 2005	(1,746)	(19,748)	(1,204)	-	(934)	(23,632)
At January 1, 2006	(1,746)	(19,748)	(1,204)	-	(934)	(23,632)
Charge for the year	(3,116)	(21,313)	(1,357)	-	(3,163)	(28,949)
Eliminated on disposals	44	151	293	-	-	488
Transfer from lease to fixed assets	-	-	(246)	-	246	-
Currency adjustment	(262)	(2,525)	(153)	-	(182)	(3,122)
At December 31, 2006	(5,080)	(43,435)	(2,667)	-	(4,033)	(55,215)
Net Book Value						
At December 31, 2005	**53,284**	**59,766**	**6,444**	**30,405**	**10,209**	**160,108**
At December 31, 2006	**155,752**	**108,088**	**31,969**	**150,431**	**22,161**	**468,401**

At December 31, 2006 property, plant and equipment with a net book value of USD 7,001 thousand were pledged to secure certain short-term and long-term loans granted to the Group and property, plant and equipment with a net book value of USD 502 thousand were pledged to secure bank guarantee to Alfa-Bank. At December 31, 2005, no property, plant and equipment were pledged to secure short-term and long-term loans granted to the Group.

At December 31, 2005, had the buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately USD 96,000 thousand.

19. INTANGIBLE ASSETS

Intangible assets as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Right to rent real estate	613	229
Software licenses	129	23
Alcohol licenses	102	41
Other intangible assets	83	58
Total	**927**	**350**

20. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Long-term loans to related parties	322	-
Total	**322**	**-**

21. MERCHANDISE

Merchandise as at December 31, 2006 and 2005 consisted of the following:

	2006	2005
Goods for resale	247,466	151,276
Total	**247,466**	**151,276**

As at December 31, 2006 merchandise with an approximate book value USD 27,651 thousand were collateralised against short-term and long-term loans granted to the Group (Notes 29 and 34).

22. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Trade receivables from third parties	14,628	1,117
Trade receivables from related parties	432	241
Less: provision for doubtful trade receivables	(1,115)	(379)
Total	**13,945**	**979**

23. VALUE ADDED TAX AND OTHER TAXES RECEIVABLE

Value added tax (“VAT”) and other taxes receivable as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
VAT reimbursable	11,229	19,150
Other taxes receivable	158	-
Total	**11,387**	**19,150**

24. ADVANCES PAID

Advances paid as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Advances to suppliers – third parties	39,471	22,309
Advances to employees on settlements with suppliers	21,759	572
Less: provision for doubtful advances	(3,160)	(1,737)
Total	**58,070**	**21,144**

25. OTHER RECEIVABLES

Other receivables as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Settlements with employees	2,686	1,471
Prepaid expenses	830	392
Claims to suppliers	409	279
VAT and other tax receivables	54	3,898
Other	1,680	296
Total	**5,659**	**6,336**

26. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2006 and 2005 consisted of the following:

	Currency	Annual interest rate	2006	2005
Short-term loans to third parties	RUB	8%	2,169	-
Total short-term loans			**2,169**	**-**

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Petty cash	4,845	2,766
Cash on deposit, in RUB	10,634	-
Cash in banks, in RUB	19,383	18,896
Cash in transit	54,927	24,109
Total	**89,789**	**45,771**

Cash in transit represents cash collected by the bank from the Group’s stores as of the end of the working day and not deposited to the bank account as of December 31.

Deposits in Russian Roubles were placed with LLC KB Sistema, a related party, bear interest of 12% per annum and mature in February-March 2007.

28. SHARE CAPITAL AND SHARE PREMIUM

At December 31, 2004 the authorized share capital of the Group was 850,000 ordinary shares with a par value of RUB 0.01 and 150,000 preferred shares with a par value of 0.01 RUB that were issued and fully paid.

In September, 2005 the Group performed an additional issue of shares in the amount of 2,758,153 ordinary shares of RUB 0.01 each. The difference between cash received and nominal value of shares was recorded as share premium and at December 31, 2005 it amounted to USD 143 thousand, including currency translation loss amounting to USD 5 thousand.

In December, 2005 the Group performed an additional issue of 61,338,601 ordinary shares with a par value of RUB 0.01 each, fully paid from net profit of the year, and made redemption of 150,000 preferred shares of with a par value of RUB 0.01 each.

At December 31, 2005 the authorized share capital of the Company was 200,850,000 ordinary shares with a par value of RUB 0.01 of which 64,946,754 shares were issued and fully paid.

In March, 2006 the Group performed an additional issue in the amount of 7,053,246 ordinary shares of RUB 0.01 each. As of December 31, 2006 their nominal value amounted to approximately USD 2.5 thousand. The shares were sold with premium of RUB 711.53 each. The difference between cash received and nominal value of shares was recorded as share premium and at December 31, 2006 it amounted to USD 190,745 thousand, including currency translation gain amounting to USD 5,997 thousand.

At December 31, 2006 the authorized share capital of the Company was 200,850,000 ordinary shares with a par value of RUB 0.01 of which 72,000,000 shares were issued and fully paid.

The shareholders of the Company are listed in Note 1.

The holders of ordinary shares have voting rights but no guarantee of dividends. Distributable profits are determined on the basis of profits reported in the statutory financial statements of the Company. These profits may differ significantly from those profits recorded under IFRS.

No dividends were declared or paid in 2006 or 2005.

29. LONG-TERM LOANS AND BONDS

Long-term loans and bonds as of December 31, 2006 and 2005 consisted of the following:

	Currency	Annual interest rate	2006	2005
Bonds	RUB	9.34%	73,491	69,707
Sberbank, Volgo-Vjatskij branch	RUB	8%	5,481	-
Uralsib bank	RUB	8%	3,950	-
Sberbank, Stavropol branch	RUB	10%	-	19,109
Sberbank, Krasnodar branch	RUB	8%-10%	-	10,423
International Moscow Bank	RUB	9%	-	5,212
			82,922	104,451
Current portion of long-term loans (Note 34)	RUB	8%-12%	-	(25,100)
Total long-term loans			**82,922**	**79,351**

Bonds – In November 2005 the Group issued bonds of RUB 2,000,000 thousand (USD 69,486 thousand) maturing in November 2008. The total amount outstanding as of December 31, 2006 is RUB 1,915,828 thousand net of RUB 13,099 thousand of direct issue costs (USD 72,759 thousand) plus interest accrued of RUB 19,262 thousand (USD 732 thousand). Interest is paid twice a year in May and November. The bonds are listed at the Moscow Interbank Currency Exchange (“MICEX”).

Sberbank, Volgo-Vjatskij branch – In September 2006 the Group entered into a credit line agreement of RUB 144,000 thousand (USD 5,297 thousand) maturing in March 2008. The total amount outstanding as of December 31, 2006 is RUB 144,000 thousand (USD 5,481 thousand). The credit line was collateralized by merchandise with an approximate book value of RUB 124,661 (USD 4,734 thousand) and fixed assets with an approximate book value of RUB 63,084 thousand (USD 2,396 thousand).

Uralsib bank – In September-November 2006 the Group entered into a credit line agreement of RUB 115,000 thousand (USD 4,230 thousand) maturing in May-September 2008. The total amount outstanding as of December 31, 2006 is RUB 104,000 thousand (USD 3,950 thousand). The credit line was collateralized by merchandise with an approximate book value of RUB 91,938 thousand (USD 3,492 thousand) and fixed assets with an approximate book value of RUB 79,753 thousand (USD 3,029 thousand).

30. SHORT-TERM AND LONG-TERM OBLIGATIONS UNDER FINANCE LEASES

Short-term and long-term obligations under finance leases as of December 31, 2006 and 2005 consisted of the following:

	Minimum lease payments 2006	Minimum lease payments 2005	Present value of minimum lease payments 2006	Present value of minimum lease payments 2005
AMOUNTS PAYABLE UNDER FINANCE LEASES				
Within one year	8,180	3,472	6,715	2,554
Between one and two years	5,063	2,846	4,679	2,433
Over two years	1,814	1,068	1,746	1,033
	15,057	7,386	13,140	6,020
Less: future finance charges	(1,847)	(1,438)		
Effect of foreign exchange rates on leased obligations	(70)	72		
Present value of lease obligations	**13,140**	**6,020**		
Less: Amount due for settlement within 12 months			(6,716)	(2,554)
Amount due for settlement after 12 months			**6,424**	**3,466**

The Group has entered into certain lease agreements with LLC "Hansa Leasing", LLC "Raiffeisen-Leasing", CJSC "DeltaLeasing", CJSC "Europlan" and LLC "Resotrust" for the rent of vehicles with an average lease term of 2.45 years. The average borrowing rate for 2006 and 2005 was 23% and 19%, respectively. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Lease obligations are denominated in RUB, USD and Euro. All lease payments are denominated in RUB.

The fair value of the Group's lease obligations approximates their carrying amount.

31. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Trade payables to third parties	267,910	130,284
Trade payables to related parties	1,206	1,939
Total	**269,116**	**132,223**

32. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Advances from customers – third parties	20,454	22,001
Accrued salaries and wages	14,670	8,560
Other accrued expenses	2,708	626
Other payables to third parties	1,040	2,235
Total	**38,872**	**33,422**

33. TAXES PAYABLE

Taxes payable as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Income tax	3,733	7,201
Unified Social Tax	3,288	1,969
Value Added Tax	3,197	8,143
Personal Income Tax	2,231	1,327
Property tax	1,307	419
Other taxes	195	54
Total	**13,951**	**19,113**

34. SHORT-TERM LOANS

Short-term loans as of December 31, 2006 and 2005 consisted of the following:

	Currency	Annual interest rate	2006	2005
Sberbank, Severokavkazskiy branch	RUB	7.4%	38,123	-
Sberbank, Krasnodarskiy branch	RUB	7.4%	36,049	17,928
International Moscow Bank	RUB	6.6%-7.05%	31,243	10,085
Gazprombank	RUB	6.5%	26,585	-
Alfa Bank	RUB	8.7%-8.83%	18,998	17,376
CJSC Ob'edinenniy capital	RUB	4.5%	2,705	-
Sberbank, Volgo-Vjatskiy branch	RUB	11%	1,905	-
Uralsib Bank	RUB	8%	1,519	-
Bank Vozrozhdenie	RUB	9.9%	1,045	-
Sberbank, Nizhniy Novgorod	RUB	5%	1,016	-
Short-term loans from related parties	RUB	0%	471	19
Yugbank	RUB	8%	-	1,741
Other short-term loans	RUB	0%	760	2,570
Current portion of long-term loans (Note 29)	RUB	8%-12%	-	25,100
Total short-term loans			**160,419**	**74,819**

Sberbank, Severokavkazskiy branch – During 2006 the Group entered into a number of non-renewable and overdraft credit line agreements maturing in February 2006 – April 2007. The total amount outstanding as of December 31, 2006 is RUB 1,000,000 thousand plus interest accrued of RUB 3,819 thousand (total amount of USD 38,123 thousand). The credit lines were unsecured as of December 31, 2006.

Sberbank, Krasnodarskiy branch – During 2006 the Group repaid in full the amount outstanding as of December 31, 2005. During 2006 the Group entered into a number of credit line agreements of RUB 4,235,128 thousand (USD 155,788 thousand) maturing in April – December 2006 and February – March 2007. The total amount outstanding as of December 31, 2006 is RUB 949,000 thousand plus interest accrued of RUB 210 thousand (total amount of USD 36,049 thousand). The credit lines were unsecured as of December 31, 2006.

International Moscow Bank – During 2006 the Group repaid in full the amount outstanding as of December 31, 2005. In September-December 2006 the Group entered into a number of credit line agreements of RUB 2,000,000 thousand (USD 73,569 thousand) maturing in November 2006 – March 2007. The total amount outstanding as of December 31, 2006 is RUB 820,000 thousand plus interest accrued of RUB 2,650 thousand (total amount of USD 31,243 thousand). The credit lines were unsecured as of December 31, 2006.

Gazprombank – In December 2006 the Group entered into a credit line agreement of RUB 700,000 thousand (USD 25,749 thousand) maturing in December 2007. The total amount outstanding as of December 31, 2006 is RUB 700,000 thousand (USD 26,585 thousand). The credit line was unsecured as of December 31, 2006.

Alfa Bank – During 2006 the Group repaid in full the amount outstanding as of December 31, 2005. In December 2005 the Group entered into a number of credit line agreements of RUB 4,115,000 thousand (USD 151,369 thousand) maturing in May 2006 – February 2007. The total amount outstanding as of December 31, 2006 is RUB 500,000 thousand plus interest accrued of RUB 241 thousand (total amount of USD 18,998 thousand). The credit lines are collateralized by the pledge of equipment with an approximate book value of RUB 41,502 thousand (USD 1,576 thousand), merchandise with an approximate book value of RUB 294,247 thousand (USD 11,175 thousand), and by the personal guarantee of Galitskyi S.N., the Group CEO, of RUB 507,381 thousand (USD 19,269 thousand).

CJSC Ob'edinenniy capital – In June and September 2006 the Group entered into a number of credit line agreements of RUB 70,000 thousand (USD 2,575 thousand) maturing in September 2007 (RUB 70,000 thousand has no maturity date). The total amount outstanding as of December 31, 2006 is RUB 71,216 thousand (USD 2,705 thousand). The credit lines were unsecured as of December 31, 2006.

Sberbank, Volgo-Vjatskiy branch – During 2006 the Group entered into a number of credit line agreements of RUB 120,000 thousand (USD 4,414 thousand) maturing in August 2007. The total amount outstanding as of December 31, 2006 is RUB 50,000 thousand plus interest accrued of RUB 151 thousand (total amount of USD 1,905 thousand). The credit lines were collateralized by merchandise with an approximate book value of RUB 52,211 thousand (USD 1,983 thousand).

Uralsib bank – During 2006 the Group entered into a number of credit line agreements of RUB 495,000 thousand (USD 18,208 thousand) maturing in November 2006 – July 2007. The total amount outstanding as of December 31, 2006 is RUB 40,000 thousand (USD 1,519 thousand). The credit lines were collateralized by merchandise with an approximate book value of RUB 73,916 thousand (USD 2,807 thousand).

Sberbank, Nizhnjy Novgorod – In February 2006 the Group entered into a credit line agreement of RUB 212,908 thousand (USD 7,832 thousand) maturing in August 2007. The total amount outstanding as of December 31, 2006 is RUB 26,698 thousand plus interest accrued RUB 43 thousand (total amount of USD 1,016 thousand). The credit lines were collateralized by merchandise with an approximate book value of RUB 57,381 thousand (USD 2,179 thousand).

Bank Vozrozhdenie – In July 2006 the Group entered into a credit line agreement of RUB 187,814 thousand (USD 6,909 thousand) maturing in July 2007. The total amount outstanding as of December 31, 2006 is RUB 27,419 thousand plus interest accrued RUB 98 thousand (USD 1,045 thousand). The credit lines were collateralized by merchandise with approximate book value of RUB 33,732 thousand (USD 1,281 thousand).

Yugbank – During 2006 the Group repaid in full the amount outstanding as of December 31, 2005.

Other short-term loans consist of various loans received from enterprises and individuals with principals varying from RUB 2 thousand to RUB 9,703 thousand (USD 368 thousand). The average principal is RUB 1,993 thousand (USD 75 thousand). All such loans are interest-free, unsecured and repayable in 2007. The effect of discounting is immaterial.

35. TRANSACTIONS WITH RELATED PARTIES

Related party balances as of December 31, 2006 and 2005 consisted of the following:

	2006		2005	
	Associated entities	Shareholders	Associated entities	Shareholders
Trade receivables	271	-	241	-
Advances paid	-	11,270	502	-
Other receivables	161	-	-	-
Trade payables	818	-	1,939	-
Other payables	178	-	-	-
Loans given	18,545	-	-	-
Loans obtained	-	471	-	-

The Group's transactions with related parties for the years ended December 31, 2006 and 2005 consisted of the following:

	2006		2005	
	Associated entities	Shareholders	Associated entities	Shareholders
Purchases of merchandise	92	-	6	-
Purchases of property, plant and equipment	145	-	1,492	-
Rent received	648	-	716	-
Loans obtained	-	-	61	1
Sales of merchandise	7,994	-	7,024	-
Rent paid	255	-	158	-
Loans given	25,353	800	-	-

Transactions with related parties are performed on terms that would not necessarily be available to third parties.

Loans to related parties mature in April-December 2007 and August-December 2011 are interest free and unsecured. These loans are stated at cost as discounting effect is immaterial.

The remuneration of Group management and members of the Board of directors of Group companies for 2006 and 2005 was USD 541 thousand and USD 420 thousand, respectively.

36. CAPITAL AND RENT COMMITMENTS

As of December 31, 2006 and 2005 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	2006	2005
Commitments for the acquisition of property, plant and equipment	33,120	14,137

The Group entered in a number of short-term and long-term rent agreements. The commitments fall due as follows:

	2006	2005
Within one year	91,224	25,612
In the second to fifth years inclusive	60,204	26,536
After five years	14,357	1,955
Total	**165,785**	**54,103**

37. EVENTS AFTER THE BALANCE SHEET DATE

Issue of bonds:

On March 20, 2007 LLC "Magnit-Finance" issued 5,000,000 bonds with a face value of RUB 1,000 each. All bonds were distributed at nominal value. The annual coupon rate of bonds is 8.20% and the bonds mature on March 23, 2012.

Investment in associate:

On November 29, 2006 CJSC "Tander" together with Gallery Digital Systems Ltd. agreed to establish an entity – CJSC "Digital Gallery" – with a share capital of RUB 3,618 thousand comprised of 1,000 ordinary shares with par value of RUB 3,618 each. CJSC "Tander" acquired 251 shares, representing 25.1% of share capital, with a nominal value of RUB 908 thousand. These shares were fully paid in cash by CJSC "Tander" on February 19, 2007.

38. CONTINGENCIES

Litigation – The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position or operating results.

Russian Federation tax and regulatory environment – The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided

adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Insurance – The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in developed markets are not yet generally available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

39. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to market movements in interest rates, foreign exchange rates and credit risk. A description of the Group's risk management policies in relation to these risks follows.

Interest rate risk – The Group is exposed to interest rate risk in case market borrowing rates reduce significantly. All Group's current borrowings and bonds have clearly defined stable interest rates.

Currency risk – Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. With the exception of finance leases, materially, all borrowings and trading activities are denominated in Russian Roubles.

Credit risk – The Group is exposed to credit risk on relatively little of its revenue, as most of its sales are on a cash basis. The Group's credit risk is primarily attributed to its other receivables. The Group does not hedge its credit risk.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management considers the fair values of financial instruments held by the Group did not materially differ from their carrying values.