

**Open Joint-Stock Company  
“Torgoviy Dom “KOPEYKA”**

Consolidated financial statements

*Year ended December 31, 2009  
with report of independent auditor*

Open Joint-Stock Company  
“Torgoviy Dom “KOPEYKA”

Consolidated financial statements

Year ended December 31, 2009

**Contents**

Independent auditors' report .....	1
Consolidated financial statements	
Consolidated statement of financial position .....	3
Consolidated statement of comprehensive income .....	4
Consolidated statement of changes in equity .....	5
Consolidated cash flow statement .....	6
Notes to consolidated financial statements .....	7

## Independent auditors' report

To the Shareholders and Management of  
Open Joint-Stock Company "Torgoviy Dom "KOPEYKA"

We have audited the accompanying consolidated financial statements of Open Joint-Stock Company "Torgoviy Dom "KOPEYKA" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### ***Management's responsibility for the financial statements***

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

### ***Auditors' responsibility***

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLC*

26 April 2010

OJSC "TD "KOPEYKA"

Consolidated statement of financial position

as at December 31, 2009

(In million of Russian Roubles)

	Notes	December 31, 2009	December 31, 2008 restated
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	13	10,391	7,837
Investment property	14	465	1,273
Intangible assets	15	5,903	2,398
Long term loans	16	42	748
Other non-current assets	17	101	63
Deferred tax asset	30	130	487
		<b>17,032</b>	<b>12,806</b>
<b>Current assets</b>			
Inventories	8	3,696	2,858
Trade and other receivables	9	1,888	2,167
Short term loans	16	31	55
Advances paid	10	274	526
Taxes receivable	11	803	901
Other current assets	12	8	423
Cash and cash equivalents	7	1,472	489
		<b>8,172</b>	<b>7,419</b>
<b>Total assets</b>		<b>25,204</b>	<b>20,225</b>
<b>Liabilities and equity</b>			
<b>Equity</b>			
Share capital	22	2,725	2,725
Retained earnings		830	(798)
		<b>3,555</b>	<b>1,927</b>
<b>Non-current liabilities</b>			
Long term debt	20	8,434	3,689
Deferred tax liability	30	262	60
		<b>8,696</b>	<b>3,749</b>
<b>Current liabilities</b>			
Trade payables	18	7,925	6,592
Short term debt	20	3,172	5,305
Taxes payable	19	383	510
Dividends payable	23	1	1
Share-based payments liabilities	34	16	–
Other current liabilities	21	1,456	2,141
		<b>12,953</b>	<b>14,549</b>
<b>Total liabilities and equity</b>		<b>25,204</b>	<b>20,225</b>

S.E. Solodov, General Director of the Company  
26 April 2010

A. D. Tarasov, Chief Financial Officer  
26 April 2010

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

OJSC "TD "KOPEYKA"  
Consolidated statement of comprehensive income  
for the year ended December 31, 2009  
(In million of Russian Roubles)

	<b>Notes</b>	<b>2009</b>	<b>2008 restated</b>
<b>Revenue</b>			
Retail revenue - own stores		44,289	35,445
Retail and wholesale revenue - franchise stores		9,880	11,019
Other revenue	24	712	567
<b>Total revenue</b>		<b>54,881</b>	<b>47,031</b>
Cost of goods sold	25	(41,133)	(35,911)
<b>Gross profit</b>		<b>13,748</b>	<b>11,120</b>
Selling, general and administrative expenses incl. depreciation and amortization (2009: RR 999; 2008: RR 811)	26	(11,002)	(9,826)
Pre-opening costs	27	(35)	(24)
Other income (expenses)	28	(233)	669
<b>Profit from operating activities</b>		<b>2,478</b>	<b>1,939</b>
Provision for loans issued and investment advances paid to related parties	32	2,633	(3,185)
Impairment of goodwill	15	(791)	-
Net foreign exchange rate gain		86	30
Finance income	29	212	397
Finance costs	29	(1,937)	(1,111)
<b>Profit (loss) before income tax</b>		<b>2,681</b>	<b>(1,930)</b>
Income tax expense (benefit)	30	(1,053)	286
<b>Profit (loss) for the year</b>		<b>1,628</b>	<b>(1,644)</b>
<b>Total comprehensive income (loss) for the year</b>		<b>1,628</b>	<b>(1,644)</b>
Basic and diluted earnings (losses) per ordinary share, Russian Roubles	31	0.60	(0.60)

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

OJSC "TD "KOPEYKA"

Consolidated statement of changes in equity

for the year ended December 31, 2009

(In million of Russian Roubles)

	Share capital	Retained earnings	Total
<b>At January 1, 2008 (as previously reported)</b>	<b>2,725</b>	<b>867</b>	<b>3,592</b>
Correction of error (Note 3.1)	–	(22)	(22)
<b>At January 1, 2008 (as restated)</b>	<b>2,725</b>	<b>845</b>	<b>3,570</b>
Total comprehensive loss for the period	–	(1,511)	(1,511)
<b>As of December 31, 2008 (as restated)</b>	<b>2,725</b>	<b>(666)</b>	<b>2,059</b>
Correction of error (Note 3.1)	–	(132)	(132)
<b>As of December 31, 2008 (as restated)</b>	<b>2,725</b>	<b>(798)</b>	<b>1,927</b>
Total comprehensive income for the period	–	1,628	1,628
<b>As of December 31, 2009</b>	<b>2,725</b>	<b>830</b>	<b>3,555</b>

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

OJSC "TD "KOPEYKA"  
Consolidated cash flow statement  
for the year ended December 31, 2009  
(In million of Russian Roubles)

	2009	2008 Restated
<b>Cash flows from operating activities</b>		
Profit (loss) before income tax	2,681	(1,764)
<b>Adjustments for:</b>		
Interest income	(212)	(397)
Interest expense	1,937	1,111
Bad debt allowance	51	–
Effect of restatement	(165)	–
Movement in inventory allowance	11	(23)
Depreciation and amortization	999	811
Change of provisions for loans issued and investments advances paid to related parties	(2,633)	3,185
Impairment of goodwill	791	–
(Profit) loss from disposal of property and equipment	36	(670)
Foreign exchange rate gain	(86)	(30)
Change in fair value of investment property	14	–
Other	118	(78)
<b>Cash generated from operations before working capital   changes</b>	<b>3,542</b>	<b>2,145</b>
Change in trade and other receivable	(924)	108
Change in advances paid	(31)	502
Change in inventories	(849)	(641)
Change in taxes receivable	159	(81)
Change in other current assets	(33)	2
Change in trade and other payables	1,539	1,282
Change in taxes payable, other than income tax	(127)	316
Change in other current liabilities	(150)	801
<b>Cash generated from operations</b>	<b>3,126</b>	<b>4,434</b>
Income taxes paid	(322)	(373)
<b>Net cash flows generated from operating activities</b>	<b>2,804</b>	<b>4,061</b>
Purchases of property and equipment	(391)	(1,739)
Proceeds from the sale of property and equipment	16	1,511
Purchases of intangible assets	(218)	(140)
Acquisition of a subsidiary, net of cash acquired	(1,181)	50
Repayment of loans issued	(18)	(742)
Proceeds from the sale of subsidiaries	40	165
<b>Cash flows from investing activities</b>	<b>(1,752)</b>	<b>(895)</b>
Proceeds from borrowings	24,718	15,011
Repayment of borrowings	(17,642)	(15,833)
Repayment of bonds	(5,397)	(1,513)
Interest paid	(1,748)	(1,109)
<b>Cash flows from financing activities</b>	<b>(69)</b>	<b>(3,444)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>983</b>	<b>(278)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>489</b>	<b>767</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>1,472</b>	<b>489</b>

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



OJSC "TD "KOPEYKA"  
Notes to consolidated financial statements  
for the year ended December 31, 2009  
*(In million of Russian Roubles)*

**1. Description of business**

Open Joint-Stock Company "Torgoviy Dom "KOPEYKA" (further referred to as OJSC "TD "Kopeyka" or the "Company", or, together with its subsidiaries, the "Group") is an open joint stock company incorporated in the Russian Federation on November 9, 2005. It is a legal successor of the LLC "TD "KOPEYKA", incorporated on May 16, 2002. The consolidated financial statements of the Company for the year ended December 31, 2009 were authorized for issue by the General Director of the Company on April 26, 2010.

The Group's principal activity is food and consumer goods retailing. In 2009 the Group continued to run business operations in Moscow, Moscow region, the surrounding regions of the Central Part of Russia and in Volga-Region.

As of December 31, 2009 the Group operated a total of 587 stores (as of December 31, 2008: 517 stores), including 511 own stores and 76 franchise stores (as of December 31, 2008: 307 own stores and 210 franchise stores).

As of December 31, 2009 the Group employed 12,164 employees (as of December 31, 2008: 9,297).

The head office of the Company is located at Petrovsko-Razumovsky proezd, 28, Moscow, Russia.

On June 30, 2009 the Group acquired control over Kopeyka Povolzhe Group (LLC "Kopeyka Povolzhe" and its subsidiaries)

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

**2. Basis of preparation of the financial statements**

*2.1 Statement of compliance*

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

*2.2 Basis of accounting*

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

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

The consolidated financial statements are presented in RR and all values are rounded to the nearest million number (RR 000,000) except when otherwise indicated.

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 2. Basis of preparation of the financial statements (continued)

#### 2.3 Functional currency

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

#### 2.4 Foreign currency translation

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

#### 2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of OJSC "TD "KOPEYKA" and its subsidiaries drawn up to December 31, 2009 after elimination of all inter-company transactions.

Business entity	Activity	Country of incorporation	Share of control (%) as of	
			December 31, 2009	December 31, 2008
OJSC "TD "KOPEYKA"	Management Company	Russia	N/A	N/A
LLC "Kopeyka Moscow"	Retail operator Moscow	Russia	100	100
LLC "Kopeyka Development"	Property management	Russia	100	100
LLC "Kopeyka Import"	Buyer of imported inventory	Russia	100	100
LLC "Kopeyka Moscow Region"	Retail operator	Russia	100	100
LLC "Trade Firm "Makedonia"	Retail operator	Russia	100	100
LLC "NK Proviant"	Property management	Russia	100	100
"Kopeyka Retail Limited"	Finance enterprise	Republic of Cyprus	100	100
LLC "TD Ryabina"	Retail operator	Russia	100	–
LLC "Kopeyka Povolzhe"	Retail operator	Russia	100	–
LLC "Kopeyka Sarov"	Retail operator	Russia	100	–
LLC "Kopeyka Voronezh"	Retail operator	Russia	100	–
LLC "Kopeyka Yaroslavl"	Retail operator	Russia	100	–
LLC "Trade Firm Samara Product"	Retail operator	Russia	100	–
CJSC "Privately owned guard enterprise "Gudvill-Garant"	Guard enterprise	Russia	–	100
LLC "Kopeyka Kaluga"	Retail operator	Russia	–	100
LLC "Kopeyka Riasan"	Retail operator	Russia	–	100
LLC "Kopeyka Tver"	Retail operator	Russia	–	100
LLC "Kopeyka Tula"	Retail operator	Russia	–	100
OJSC "Victorya-18"	Retail operator	Russia	–	100

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 2. Basis of preparation of the financial statements (continued)

#### 2.5 Basis of consolidation (continued)

On June 30, 2009 the Group acquired control over Kopeyka Povolzhe Group which includes the following entities:

<b>Business entity</b>	<b>Activity</b>
LLC "Kopeyka Povolzhe"	Management Company, retail operator
LLC "Alkor"	Retail operator
LLC "Kopeyka Sarov"	Retail operator
LLC "Kopeyka Voronezh"	Retail operator
LLC "Kopeyka Yaroslavl"	Retail operator
LLC "Rokset"	Retail operator
LLC "Trade Firm Samara Product"	Retail operator
LLC "Trade centre Absolut"	Retail operator

LLC "Rokset" and LLC "Trade centre Absolut" were controlled by Kopeyka Povolzhe Group as of June 30, 2009 and were disposed in November and December 2009. The leasehold rights of the stores operated by these entities were transferred to other subsidiaries of the Group

The Group disposed CJSC "Privately owned guard enterprise "Gudwill-Garant" and OJSC "Viktorya-18" in September 2009. On December 28, 2009 the Group sold five subsidiaries: LLC "Kopeyka Kaluga", LLC "Kopeyka Riasan", LLC "Kopeyka Tver", LLC "Kopeyka Tula" and LLC "Alkor". The leasehold rights of the stores operated by these entities were transferred to other subsidiaries of the Group.

Control over LLC "TD Ryabina" was obtained in 2009. The entity is not material to the Group therefore no additional disclosures were made.

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

### 3. Errors and changes in accounting policies

#### 3.1 Restatement of comparative information

In the course of preparation of the consolidated financial statements as of December 31, 2009 and for the year then ended the Group identified an error related to the prior year financial information. The error was corrected through the restatement of the comparative information as of December 31, 2008.

#### *Error in respect of top management bonus*

In 2009 a bonus in the amount of RR 142 related to 2008 results was paid to the top and middle management of the Group. The bonus was partially accrued in the financial statements as of December 31, 2008 in the amount of RR 38.

However, the Group omitted to accrue the bonus in its full amount. As a result, as of December 31, 2008 other current liabilities, deferred tax assets and retained earnings were understated by RR 104, RR 21 and RR 83, respectively, selling, general and administrative expenses, income tax benefit, and net loss for the year ended December 31, 2008 were understated by RR 104, RR 21 and RR 83, respectively.

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 3. Errors and changes in accounting policies (continued)

#### 3.1 Restatement of comparative information (continued)

##### *Error in respect of expenses related to prior periods*

In previously reported consolidated financial statements for the year ended December 31, 2008 the Group did not recognize expenses in the amount of RR 46 mln. As a result, as of December 31, 2008 other current liabilities, deferred tax assets and retained earnings were understated by RR 46 mln, RR 9 mln and RR 37 mln, respectively; selling, general and administrative expenses, income tax benefit and net loss for the year ended December 31, 2008 were understated by RR 46 mln, RR 9 mln and RR 37 mln, respectively.

##### *Error in respect of accrual for unused vacation*

The Group incorrectly estimated the amount of liability in respect of unused vacation as of December 31, 2008. As a result, as of December 31, 2008 other current liabilities, deferred tax assets and retained earnings were understated by RR 15 mln, RR 3 mln and RR 12 mln, respectively. Selling, general and administrative expenses, income tax benefit and net loss for the year ended December 31, 2008 were understated by RR 15 mln, RR 3 mln and RR 12 mln, respectively.

##### *Error in respect of intangible assets*

As a result of a technical error in prior periods the Group incorrectly recorded the disposal of an intangible asset. As a result as of December 31, 2008 intangible assets, deferred tax liability and retained earnings were overstated by RR 28 mln, RR 6 mln and RR 22 mln, respectively.

The effect of the correction of error on the Group's consolidated opening financial position as of December 31, 2008 is summarized below:

Line item	As previously reported	Correction of error	As restated
Intangible assets	2,426	(28)	2,398
Deferred tax asset	454	33	487
Retained earnings	(644)	(154)	(798)
Deferred tax liability	66	(6)	60
Other current liabilities	1,976	165	2,141

The effect on the Group's statement of comprehensive income for the year ended December 31, 2008 is summarized below:

Line item	As previously reported	Correction of error	As restated
Selling, general and administrative expenses	(9,661)	(165)	(9,826)
Income tax benefit (expense)	253	33	286
Profit (loss) for the year	(1,511)	(132)	(1,643)

As a result of the above errors retained earnings decreased by RR 22 as of January 1, 2008.

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 3. Errors and changes in accounting policies (continued)

#### 3.2 Changes in accounting policies

On January 1, 2009 a number of standards and improvements became effective and were applied by the Company. Below the standards and improvements are described which had a significant impact on the Group's financial statements:

##### *IFRS 8 Operating Segments*

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group disclosed information required for a single segment.

##### *IAS 1 Revised Presentation of Financial Statements*

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement of comprehensive income.

#### 3.3 New standards, interpretations and improvements not applied

The IASB and IFRIC have issued a number of standards, interpretations and improvements with an effective date after the date of these financial statements. The directors have set out below only those which may have a material impact on the financial statements in future periods. The Group will apply these changes after they become effective.

#### Standards

##### *Amendments to IAS 24 - Related Party Disclosures*

The amendment was issued in November 2009 and becomes effective for annual periods beginning on or after January 1, 2011. Amendments should be applied retrospectively; early application is permitted. Amendments clarify the definition of related parties, but without reconsidering the fundamental approach to related party disclosures. The amendment also added explicit disclosure requirements for commitments (including executor contracts) with related parties.

##### *IAS 27 Consolidated and Separate Financial Statements*

The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after July 1, 2009 with early application permitted. IAS 27 (as issued in 2008) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. If early adopted the amended standard is to be applied together with IFRS 3 (Revised) Business Combinations, including consequential amendments to IAS 21, IAS 28, IAS 31 and IAS 39.

### 3. Errors and changes in accounting policies (continued)

#### 3.3 New standards, interpretations and improvements not applied (continued)

##### *IFRS 3 Business Combinations*

The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after July 1, 2009 with early application permitted. The standard introduces changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. If early adopted standard has to be applied together with the revised IAS 27 Consolidated and Separate Financial Statements, including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39.

##### Improvements

##### *IFRS 2 Share-based payment*

The improvement is applicable to annual periods beginning on or after July 1, 2009. To be applied retrospectively. Earlier application is permitted. The improvement clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 even though they are out of scope of IFRS 3 Business Combinations (as revised in 2008). If an entity applies IFRS 3 (as revised in 2008) for an earlier period, the amendments shall also be applied for that earlier period.

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

The improvement is applicable to annual periods beginning on or after January 1, 2010. To be applied prospectively. Earlier application is permitted. The improvement clarifies that the disclosures required in respect of non-current assets or disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRS`s only apply if specifically required for such non-current assets or discontinued operations. Also clarifies that the general requirements of IAS 1 still apply, particularly paragraphs 15 (to achieve a fair presentation) and 125 (sources of estimation uncertainty) of IAS 1.

##### *IFRS 8 Operating segments*

The improvement is applicable to annual periods beginning on or after January 1, 2010. To be applied retrospectively. Earlier application is permitted. Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

##### *IAS 36 Impairment of Assets*

The improvement is applicable to annual periods beginning on or after January 1, 2010. To be applied prospectively. Earlier application is permitted. Clarifies that the largest unit permitted for allocating goodwill acquired business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.

## Notes to consolidated financial statements (continued)

**4. Significant accounting judgments and estimates***4.1 Significant accounting judgments*

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

*Classification of lease agreements*

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

*4.2 Significant accounting estimates*

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least annually. This requires an estimation of the value in use of the cash-generating units or groups of units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units or groups of units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 15.

*Bad debt allowance*

The Group recognizes allowances on accounts receivables if the repayment of these receivables is doubtful. This involves an estimation of the financial situation of the counterparties and their ability to generate sufficient cash to repay these loans in the future. Management estimates bad debt allowance based on aging analysis, trade receivables turnover and internal credit control analysis. Such estimation is subject to significant uncertainties based on the current volatility of the economic environment and the limited information about the counterparties' financial situation and perspectives.

*Current taxes*

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

## Notes to consolidated financial statements (continued)

**4. Significant accounting judgments and estimates (continued)***4.2 Significant accounting estimates (continued)*

As of December 31, 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 30.

*Deferred tax assets*

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

*Fair values of assets and liabilities acquired in business combination*

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

*Impairment of non-financial assets (other than goodwill)*

The Group is required to reduce the carrying amount of property and equipment to the recoverable amount in case of any indication of impairment exists. The recoverable amounts of buildings and leasehold improvements for which such indication existed at the reporting date represent value in use as determined by discounting the future cash flows generated from the continuing use of the respective stores. The key assumptions used in determining of the recoverable amounts of the respective leasehold improvements require considerable judgment in forecasting future cash flows and estimating discounting rate. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 13.

*Useful life of property and equipment*

The Group assesses the remaining useful lives of items of property and equipment at least at each financial year end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

*Inventory provision*

The group provides for estimated physical losses of inventory on the basis of a historical data as a percentage of sales (Note 8). This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results.



Notes to consolidated financial statements (continued)

**4. Significant accounting judgments and estimates (continued)**

*4.2 Significant accounting estimates (continued)*

*Investment property*

The Group carries its investment properties at fair value, with changes in fair values being recognized in the statement of comprehensive income. The Group engaged independent valuation specialists to determine fair value as at December 31, 2009. For the investment properties the valuer used a valuation technique based on income and market approach. The determined fair value of the investment properties is most sensitive to real estate market conditions, discount rates, growth rates assumptions.

*Recoverability of loans issued and advances paid on investments*

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

▶ *Loans issued*

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

▶ *Advances paid on investments*

The Group recognizes allowances on advances paid on investments if the Group expects that the value of the investment to be received in exchange is below the advances paid. This involves estimations of the fair value of the investments. Such estimation is subject to significant uncertainties based on the current volatility of the economic environment and the limited information about the investment.

*Share-based payment transactions*

The Group measures the cost of cash-settled transactions with employees by reference to fair value as determined by the long term management motivation program. The assumptions and calculations used for estimating fair value for share-based payment transactions are disclosed in Note 34.

**5. Summary of significant accounting policies**

*5.1 Principles of consolidation*

*Subsidiaries*

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

Notes to consolidated financial statements (continued)

**5. Summary of significant accounting policies (continued)**

*5.2 Acquisition of subsidiaries*

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

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

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

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

*Acquisition of productive assets (single asset entities)*

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

*5.3 Operating segments*

The Group has only one operating segment and all its retail business is carried out in Russia.

*5.4 Cash and cash equivalents*

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

*5.5 Receivables*

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

*5.6 Inventories*

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

# OJSC “TD “KOPEYKA”

## Notes to consolidated financial statements (continued)

### 5. Summary of significant accounting policies (continued)

#### 5.7 Property and equipment

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

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

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

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

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

<b>Asset Category</b>	<b>Depreciation Period</b>
Buildings	30 years
Trade equipment	8 years
Vehicles	7-10 years
Leasehold improvements	6-8 years
Other assets	6 years

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each reporting date.

#### 5.8 Investment property

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

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 5. Summary of significant accounting policies (continued)

#### 5.8 *Investment property (continued)*

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

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

#### 5.9 *Goodwill*

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

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

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

#### 5.10 *Other intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives from eight to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year end.

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 5. Summary of significant accounting policies (continued)

#### 5.11 Share based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees are granted share appreciation rights, which can only be settled in cash (cash-settled transactions).

##### *Cash-settled transactions*

The cost of cash-settled transactions is measured initially at fair value at the grant date using the model determined in the long term management motivation program, further details of which are given in Note 34. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

#### 5.12 Employee benefits

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

#### 5.13 Borrowings

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

#### 5.14 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

#### 5.15 Revenues and expenses

Revenues and expenses are recognized in the period when revenue is earned and expense is incurred. Revenue is recognized when the title to the goods and risks of ownership are transferred to the customer, provided that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 5. Summary of significant accounting policies (continued)

#### 5.15 Revenues and expenses (continued)

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

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

#### 5.16 Leases

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

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

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

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

#### 5.17 Income taxes

Income tax has been computed in accordance with the laws of the Russian Federation. It is based on the results for the period as adjusted for items that are non-assessable or disallowed for tax purposes. Income tax expense is recognized in each period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

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

## OJSC "TD "KOPEYKA"

### Notes to consolidated financial statements (continued)

#### 5. Summary of significant accounting policies (continued)

##### 5.17 *Income taxes (continued)*

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

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

##### 5.18 *Value added tax*

VAT is payable to tax authorities upon the date of sales transaction. VAT on purchases (input VAT), which have been occurred at the balance sheet date, is deducted from the amount payable.

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

##### *Value added tax recoverable*

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

#### 6. Business combinations

##### *Acquisitions in 2009*

On June 30, 2009 the Group acquired control over Kopeyka Povolzhe Group by purchasing it from Onceil Trading Ltd.

The fair value of the acquired net assets was determined by LLC Kompaniya Ocenochnyi Standart, an accredited independent valuer, as at June 30, 2009.

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**6. Business combinations (continued)**

*Acquisitions in 2009 (continued)*

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

	<b>Fair value</b>	<b>Book value unaudited</b>
Property and equipment	2,356	2,040
Deferred income tax asset	308	301
Other non-current assets	51	27
Trade and other receivables	1,822	1,999
Cash	111	111
Inventory	413	568
Other current assets	145	156
Deferred income tax liability	(169)	(20)
Long term debt	(2,509)	(3,069)
Trade and other payables	(3,303)	(2,471)
Short term debt	(811)	(837)
Other current liabilities	(133)	(133)
<b>Net assets acquired</b>	<b>(1,719)</b>	<b>(1,328)</b>
Goodwill (Note 15)	4,106	
<b>Total acquisition cost</b>	<b>2,387</b>	
Cash paid in advance in 2007	(541)	
Cash paid in 2009	(1,292)	
Cash of Kopeyka Povolzhe Group	111	
<b>Net cash outflow</b>	<b>(1,722)</b>	

On March 31, 2010 the Group settled the remaining payables to Onceil Trading Ltd for the purchase of Kopeyka Povolzhe Group.

The revenue and net profit of the Group for the year ended December 31, 2009 as though the acquisition dates had been the beginning of that period would be RR 57,486 and RR 1,628 respectively. Given the nature of the Group's accounting records it is impractical to disclose the revenue and net profit incurred by Kopeyka Povolzhe Group after its acquisition by the Company.

In the course of the preparation of its annual financial statements management noted errors in determining the fair value of the net assets purchased and, consequently, in the calculation of goodwill in its interim financial statements. Management corrected these errors in these consolidated financial statements:

	<b>June 30, 2009</b>	<b>As corrected</b>
Fair value of net assets	(1,556)	(1,719)
Goodwill	3,943	4,106
Impairment of goodwill	610	773



# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 6. Business combinations (continued)

#### *Acquisition in 2008*

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

The company was sold to the Group by LLC "Kopeyka Povolzhe". The amount given as consideration (RR 641) represents fair value of net assets before deferred tax adjustments and was netted with receivables from LLC "Kopeyka Povolzhe. Goodwill arose mainly because of the recognition of a deferred tax liability in the amount of RR 148.

#### *Disposals in 2009*

The Group disposed CJSC "Privately owned guard enterprise "Gudwill-Garant" on September 1, 2009 and OJSC "Viktorya-18" on September 30, 2009. On December 28, 2009 the Group sold 100% of the shares of five subsidiaries: LLC "Kopeyka Kaluga", LLC "Kopeyka Riasan", LLC "Kopeyka Tver", LLC "Kopeyka Tula" and LLC "Alkor".

The disposal of the subsidiaries contributed losses of RR 33 to the Group's net profit for the year. The receivables from buyers of the disposed subsidiaries were settled in January 2010.

### 7. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Petty cash	202	133
Cash at bank	235	177
Cash to be deposited with banks	245	179
Short-term deposits	790	–
<b>Total cash and cash equivalents</b>	<b>1,472</b>	<b>489</b>

All cash amounts are denominated in Russian Roubles.

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**8. Inventories**

Inventories consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Goods for resale in own stores and warehouse	3,331	2,640
Goods for resale in franchise stores	357	191
Goods in transit	37	50
Other inventories	32	27
Allowance for obsolescence and net realizable value	(61)	(50)
<b>Total inventories</b>	<b>3,696</b>	<b>2,858</b>

Goods for resale consisted of inventory in the retail outlets, franchise stores and warehouses. Provision for physical losses was estimated on the basis of the results of periodic inventory counts. Provision for obsolescence and inventory losses is recognized for goods being damaged, or wholly or partially obsolete.

As of December 31, 2009, goods for resale in the amount of RR 948 were pledged as collateral for short term loans from Moskovsky Kreditny Bank OJSC (Note 20).

**9. Trade and other receivables**

Trade and other receivables consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Trade and other receivables from third parties	1,929	1,049
Trade and other receivables from related parties (see Note 31)	–	1,128
Allowance for doubtful accounts	(41)	(10)
<b>Total trade receivables</b>	<b>1,888</b>	<b>2,167</b>

	<b>December 31, 2008 restated</b>	<b>Accrual</b>	<b>Reversal</b>	<b>December 31, 2009</b>
Allowance for doubtful accounts	(10)	(31)	–	(41)

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

See also Note 37 concerning the credit risk analysis of the trade and other receivables of the Group.

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**10. Advances paid**

Advances paid consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Advances to suppliers of services	278	273
Advances to suppliers of goods	16	–
Other advances paid to related parties (see Note 31)	–	253
Allowance for doubtful accounts	(20)	–
<b>Total advances paid</b>	<b>274</b>	<b>526</b>

	<b>December 31, 2008 restated</b>	<b>Accrual</b>	<b>Reversal</b>	<b>December 31, 2009</b>
Allowance for doubtful accounts	–	(20)	–	(20)

**11. Taxes receivable**

Taxes receivable consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
VAT recoverable	667	320
Prepaid VAT	64	570
Income and other taxes receivable	72	11
<b>Total taxes receivable</b>	<b>803</b>	<b>901</b>

The Value Added Tax (VAT) recoverable represents mainly amounts paid in relation to acquisition of fixed assets to be commissioned, construction in progress and the purchase of goods for resale, which will be off-set against VAT on sale of goods to customers. The prepaid VAT represents mainly amounts, paid in excess of revised VAT tax returns of previous reporting periods. The Company believes that amounts are fully recoverable within a year.

**12. Other current assets**

Other current assets consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Interests on loans to related parties (Note 32)	3	321
Receivables from related parties (Note 32)	–	89
Deferred expenses	2	10
Lease receivable	3	3
<b>Total other current assets</b>	<b>8</b>	<b>423</b>

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

13. Property and equipment

The analysis of activity in property and equipment is as follows:

	Buildings and land	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improve- ments	Total
<b>Cost</b>							
Balance as of January 1, 2008	3,969	2,165	527	364	538	1,428	8,991
Additions	1,302	178	171	120	89	263	2,123
Transfer	131	45	–	–	(176)	–	–
Disposals	(857)	(32)	(51)	(16)	(9)	(85)	(1,050)
Reclassification	(127)	(150)	(6)	209	13	60	(1)
Acquisition of a subsidiary	13	2	–	5	19	–	39
Translation to Investment property	(91)	–	–	–	–	–	(91)
<b>Balance as of December 31, 2008 (restated)</b>	<b>4,340</b>	<b>2,208</b>	<b>641</b>	<b>682</b>	<b>474</b>	<b>1,666</b>	<b>10,011</b>
<b>Accumulated depreciation</b>							
Balance as of January 1, 2008	(364)	(695)	(94)	(85)	(18)	(314)	(1,570)
Depreciation	(124)	(242)	(56)	(85)	–	(230)	(737)
Impairment	–	(3)	–	–	–	(5)	(8)
Disposals	91	16	11	10	–	13	141
Reclassification	47	49	(2)	(106)	18	(6)	–
<b>Balance as of December 31, 2008 (restated)</b>	<b>(350)</b>	<b>(875)</b>	<b>(141)</b>	<b>(266)</b>	<b>–</b>	<b>(542)</b>	<b>(2,174)</b>
<b>Net book value</b>	<b>3,990</b>	<b>1,333</b>	<b>500</b>	<b>416</b>	<b>474</b>	<b>1,124</b>	<b>7,837</b>

	Buildings and land	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improve- ments	Total
<b>Cost</b>							
Balance as of January 1, 2009	4,340	2,208	641	682	474	1,666	10,011
Transfer	47	84	–	31	(136)	(26)	–
Additions	158	101	11	117	–	4	391
Transfer from Investment property	792	2	–	–	–	1	795
Disposals	(7)	(321)	(21)	(29)	–	(20)	(398)
Acquisition of a subsidiary	878	664	206	160	32	416	2,356
<b>Balance as of December 31, 2009</b>	<b>6,208</b>	<b>2,738</b>	<b>837</b>	<b>961</b>	<b>370</b>	<b>2,041</b>	<b>13,155</b>
<b>Accumulated depreciation</b>							
Balance as of January 1, 2009	(350)	(875)	(141)	(266)	–	(542)	(2,174)
Transfer	(7)	–	–	–	–	7	–
Depreciation	(160)	(340)	(77)	(126)	–	(230)	(933)
Impairment	–	3	–	–	–	2	5
Disposals	(7)	207	6	18	–	114	338
<b>Balance as of December 31, 2009</b>	<b>(524)</b>	<b>(1,005)</b>	<b>(212)</b>	<b>(374)</b>	<b>–</b>	<b>(649)</b>	<b>(2,764)</b>
<b>Net book value</b>	<b>5,684</b>	<b>1,733</b>	<b>625</b>	<b>587</b>	<b>370</b>	<b>1,392</b>	<b>10,391</b>

The carrying value of land plots was RR 241 as of December 31, 2009 (as of December 31, 2008: RR 39). As of December 31, 2009 the gross carrying amount of fully depreciated property and equipment was RR 265 (as of December 31, 2008: RR 327)

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 13. Property and equipment (continued)

The amount of borrowing cost capitalized in the year ended December 31, 2009 was RR 2.2 (in the same period of 2008: RR 2)

The amounts in the 'Acquisition of a subsidiary' category reflect the Company's acquisition of Kopeyka Povolzhe Group

An indication of impairment was identified for loss-generating and low-profitable shops. Each shop is considered as a cash generating unit. For impairment testing purposes, the recoverable amount of the group stores has been determined on the basis of the value-in-use calculation based on cash flow projections using financial budgets approved by senior management. The discount rate applied to cash flow projections is 14.8% per annum. The growth rate of 3.5% was assumed for future five years.

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

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

The total amount of impairment related to cash generating unit amounts to RR 3 (2008: RR 15). In 2009 there was an impairment reversal of RR 8.

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

The Group pledged a number of real estate premises on loan agreements with Sberbank Rossii OJSC, Moskovsky Kreditny Bank OJSC and Raiffeisenbank CJSC (Note 20).

Loan Agreement	December 31, 2009		December 31, 2008 restated	
	Net book value of property and equipment pledged	Amount of loan	Net book value of property and equipment pledged	Amount of loan
Sberbank Rossii OJSC	2,904	4,600	188	580
Moskovsky Kreditny Bank OJSC	575	790		
Raiffeisenbank CJSC	135	21	–	–
<b>Total</b>	<b>3,614</b>	<b>5,411</b>	<b>188</b>	<b>580</b>

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**14. Investment property**

Investment property includes retail and non-retail premises leased or hold for lease to the Group's franchisees, except those operating on commission basis, and to third parties.

	<u>2008</u>
<b>Cost</b>	
<b>Balance as of January 1</b>	–
Acquisition of a subsidiary	661
Additions	380
Transfer from property, plant and equipment to investment property	91
Change in fair value as of the balance sheet date	141
<b>Balance as of December 31 (restated)</b>	<u><u>1,273</u></u>
	<u>2009</u>
<b>Cost</b>	
<b>Balance as of January 1</b>	<b>1,273</b>
Additions	1
Transfer to property, plant and equipment	(795)
Change in fair value as of the balance sheet date	(14)
<b>Balance as of December 31</b>	<u><u>465</u></u>

As of December 31, 2008 a major part of investment property contained property leased to entities of the Kopeyka Povolzhe Group. After the business combination this property is owner occupied and was transferred to property, plant and equipment (RR 795).

As of December 31, 2009 the Group pledged investment property on loan agreement with Sberbank Rossii OJSC with net book value of RR 439 (as of December 31, 2008: RR 0).

Investment property is stated at fair value, which has been determined on the basis of the valuations performed by LLC Kompaniya Ocenochnyi Standart, an accredited independent valuer, as of December 31, 2009. LLC Kompaniya Ocenochnyi Standart is an industry specialist in valuing these types of investment property. The fair value of the properties have been determined on the basis of the transactions observable in the market, and the valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

Average yields of 12.8% were used in the valuation reports.

In 2009, rental income from investment property was RR 98, about 16% of total rental income of the Group (603 RR). The operating expenses (including repairs and maintenance) arising from the investment property that generated rental income during 2009 were RR 14. The Group did not have any investment property that did not generate rental income during 2009.

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

Within one year	46
After one year but not more than five years	92

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

15. Intangible assets

The analysis of activity in intangible assets was as follows:

	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>			
Balance as of January 1, 2008 (restated)	2,115	190	2,305
Additions	–	140	140
Acquisition of a subsidiary	160	–	160
<b>Balance as of December 31, 2008 (restated)</b>	<b>2,275</b>	<b>330</b>	<b>2,605</b>
<b>Accumulated amortization</b>			
Balance as of January 1, 2008 (restated)	–	(142)	(142)
Amortization	–	(58)	(58)
Impairment	–	(7)	(7)
<b>Balance as of December 31, 2008 (restated)</b>	<b>–</b>	<b>(207)</b>	<b>(207)</b>
<b>Net intangible assets</b>	<b>2,275</b>	<b>123</b>	<b>2,398</b>
	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>			
Balance as of January 1, 2009	2,275	330	2,605
Additions	–	215	215
Disposals	–	(26)	(26)
Acquisition of a subsidiary	4,106	51	4,157
<b>Balance as of December 31, 2009</b>	<b>6,381</b>	<b>570</b>	<b>6,951</b>
<b>Accumulated amortization</b>			
Balance as of January 1, 2009	–	(207)	(207)
Amortization	–	(66)	(66)
Disposals	–	16	16
Impairment	(791)	–	(791)
<b>Balance as of December 31, 2009</b>	<b>(791)</b>	<b>(257)</b>	<b>(1,048)</b>
<b>Net intangible assets</b>	<b>5,590</b>	<b>313</b>	<b>5,903</b>

As of December 31, 2009 the gross carrying amount of fully amortized intangible assets was RR 186 (as of December 31, 2008: RR 133)

Goodwill in the amount of RR 2,115 relates to acquisitions in the course of the Group's formation in May 2002.

In January 2008 year the Group acquired LLC "NK "Proviant" and recognized goodwill of RR 160 which arose in the amount RR 148 based on the recognition of a deferred tax liability.

In June 2009 the Group acquired the Kopeyka Povolzhe Group and recognized goodwill in the amount of RR 4,106 which relates to the difference between the purchase price and the fair value of the net assets of the acquired subsidiaries (Note 6). The management of the Group believes that Kopeyka Povolzhe Group will be profitable within next five years although it had negative net assets on June 30, 2009.

# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 15. Intangible assets (continued)

Carrying amount of goodwill as of December 31, 2009 can be summarized as follows:

	<b>2009</b>	<b>2008 restated</b>
Group of stores at formation in 2002	2,115	2,115
Acquisition NK Proviant in 2008	160	160
Acquisition Kopeyka Povolzhe Group in 2009 (Note 6)	4,106	–
Impairment of goodwill (Note 6)	(791)	–
<b>Total carrying amount of goodwill</b>	<b>5,590</b>	<b>2,275</b>

For goodwill impairment testing purposes the recoverable amount of the group stores has been determined based on a value-in-use calculation based on cash flow projections using financial budgets approved by senior management. The discount rate applied to cash flow projections is 14.8% per annum. The growth rate of 3.5% was assumed for future five years.

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

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

The impairment test on the goodwill related to the Group formation and the purchase of Proviant (total amount RR 2,275) led to the impairment of the goodwill in the amount of RR 18.

The impairment test on the goodwill related to the Kopeyka Povolzhe Group and carried out immediately after acquisition led to an impairment of the goodwill in the amount of RR 773 as the recoverable amount based on the calculation was less than the fair value of the net assets of the Kopeyka Povolzhe Group.

Other intangible assets include purchased software, licenses, rent rights and trademarks. The amortization of other intangible assets is calculated on a straight line basis over the estimated useful lives of the respective assets. In 2009, the Group purchased licenses for mySAP Business Suite for RR 84 and Microsoft Desktop Professional Listed License for RR 12, rent rights for RR 80 and others.

### 16. Long term and short term loans

Long term loans consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Loans granted to third parties	22	–
Loans granted to related parties (Note 32)	20	748
<b>Total long term loans</b>	<b>42</b>	<b>748</b>
Loans granted to third parties	30	–
Loans granted to related parties (Note 32)	1	55
<b>Total short term loans</b>	<b>31</b>	<b>55</b>



OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**17. Other non-current assets**

Other non-current assets consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Long term rent deposits	96	55
Long term lease receivable	5	7
Other	–	1
<b>Total</b>	<b>101</b>	<b>63</b>

**18. Trade payables**

Trade payables represent current payables to suppliers of goods and services in the amount of RR 7,925 (2008: RR 6,592) and are mainly denominated in Russian Roubles.

See also Note 37 concerning the liquidity risk analysis of the trade payables of the Group.

**19. Taxes payable**

Taxes payable consisted of the following:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Value added tax payable	295	385
Income tax	8	8
Property tax	41	31
Other taxes	39	86
<b>Total taxes payable</b>	<b>383</b>	<b>510</b>

**20. Debt**

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

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Bonds issued	–	3,866
Sberbank Rossii OJSC (RR 1,300 current portion of long term loan)	1,900	580
VTB OJSC	500	–
Garanti Bank - Moscow CJSC	300	–
Moskovsky Kreditny Bank OJSC	300	333
AB Gazprombank	38	394
Raiffeisenbank CJSC	21	–
Other short term loans	11	5
Unamortized notes issued discount	–	(3)
Unamortized loan origination costs	(13)	–
Financial leasing short-term payable to third parties	12	41
Interest and coupons payable	103	89
<b>Total short term debt</b>	<b>3,172</b>	<b>5,305</b>

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**20. Debt (continued)**

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

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Bonds issued	3,821	3,821
Sberbank Rossii OJSC	2,700	–
Moskovsky Kreditny Bank OJSC	1,190	–
FC Uralsib	800	–
Unamortized bonds modification cost	(68)	(149)
Unamortized loan origination costs	(13)	–
Other long term debt	4	17
<b>Total long term debt</b>	<b>8,434</b>	<b>3,689</b>

The amount of undrawn borrowing facilities that may be available in the future for operating activities as of December 31, 2009 is RR 2,962.

On February 22, 2006 the Company issued its second bond issue totaling RR 4,000. The second bond issue is repayable in 6 years and has 24 quarterly coupons. The coupon rate was set at 8.70% per annum for coupons 1-12 and 16.5% per annum for coupons 13-24.

1,223,136 bonds of the second issue remain on the market as of December 31, 2009.

On February 21, 2007 the Company issued its third bond issue totaling RR 4,000 which is repayable in 6 years and has 24 quarterly coupons. The coupon rate was set at 9.80% per annum

In August 2008, Financial Corporation Uralsib (FC Uralsib) acquired over 95% of the bonds of the third issue. In order to achieve market interest rate of the bonds the Group signed separate agreement with FC Uralsib and as a consequence incurred in 2009 additional interest expenses in the amount of RR 307.

2,598,351 bonds of the third issue remain on the market as of December 31, 2009.

The minimum and maximum interest rates are the following:

<b>December 31, 2009</b>	<b>interest rate</b>	
	<b>minimum</b>	<b>maximum</b>
Long term debt (bonds)	9.8%	16.5%
Long term borrowings		
Secured loans	13.0%	17.0%
Short term borrowings		
Unsecured loans	13.9%	16.0%
Secured loans	9.8%	16.5%
<b>December 31, 2008 restated</b>	<b>interest rate</b>	
	<b>minimum</b>	<b>maximum</b>
Long term debt (bonds)	8.7%	9.8%
Short term debt (bonds)	8.7%	9.8%
Short term borrowings		
Secured loans	11.5%	12.3%
Unsecured loans	13.0%	18.0%

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**20. Debt (continued)**

Property and equipment (Notes 13), investment property (Note 14) and inventory (Note 8) were pledged as collaterals for loan agreements with Sberbank Rossii OJSC, Moskovsky Kreditny Bank OJSC and Raiffeisenbank CJSC.

**21. Other current liabilities**

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Payables to Onceil Trading Ltd	479	–
Wages and social taxes	521	554
Payables for services received	271	293
Advances received for property and equipment	105	109
Commission payable to franchisees	59	–
Financial lease deferred revenue	3	3
Payables for purchase of fixed assets	–	850
Commission payable to related parties	–	164
Accounts payable for repair and maintenance	–	40
Other payables	18	128
<b>Total other current liabilities</b>	<b>1,456</b>	<b>2,141</b>

**22. Share capital**

	<b>Ordinary shares 2009</b>	<b>Ordinary shares 2008</b>
Authorized and issued shares (number)	2,725,146,270	2,725,146,270
Par value	RR 1	RR 1
Issued and fully paid on January 1	2,725	2,725
<b>Issued and fully paid on December 31</b>	<b>2,725</b>	<b>2,725</b>

**23. Dividends**

The Company did not declare any dividends in 2009, as well as in 2008.

**24. Other revenues**

Other revenues for the year ended December 31, 2009 consisted of the following:

	<b>2009</b>	<b>2008 restated</b>
Rent	603	461
Other	109	106
<b>Total other revenues</b>	<b>712</b>	<b>567</b>

Other revenues consist mainly of revenues from IT services, sales of recoverable materials, revenues from security services and royalties.

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**25. Cost of goods sold**

Cost of goods sold for the year ended December 31, 2009 consisted of the following:

	<b>2009</b>	<b>2008 restated</b>
Goods for resale	44,241	37,492
Penalties received from (paid to) buyers	5	200
Shortage of goods	337	301
Discounts and reimbursements for shortages provided by suppliers	(3,450)	(2,082)
<b>Total cost of goods sold</b>	<b>41,133</b>	<b>35,911</b>

In 2009 the Group changed the presentation of reimbursements for shortages provided by suppliers and reclassified the 2008 comparatives accordingly.

Marketing revenue provided by suppliers is in substance a price reduction of inventory and reduces the cost of inventory and, consequently, cost of sales.

**26. Selling, general and administrative expenses**

Selling, general and administrative expenses for the year ended December 31, 2009 consisted of the following:

	<b>2009</b>	<b>2008 restated</b>
Personnel	3,740	3,386
Rent	2,331	1,522
Commissions to franchisees	1,393	1,679
Utilities	744	534
Repair and maintenance	354	261
Marketing and advertising	106	325
Materials and supplies	253	277
Outsourcing of selling personnel	171	192
Warehouses	169	191
Taxes other than income tax	197	174
Security	154	51
Bank charges	104	80
Communication costs	77	49
Transportation	7	24
Audit, consulting and legal fees	51	128
Insurance	16	13
Depreciation and Amortization	999	811
Other	136	129
<b>Total selling, general and administrative expenses</b>	<b>11,002</b>	<b>9,826</b>

**27. Pre-opening costs**

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

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**28. Other income (expenses)**

Other income (expenses) consisted of the following:

	<b>2009</b>	<b>2008 restated</b>
Loss from disposal of subsidiaries	(33)	–
Gain (loss) from disposal of non-current assets	(36)	612
Leasehold improvements write-off (closed shops)	(43)	(35)
Other closing costs	(24)	(28)
Provision for unrecovered VAT from investing activities	(33)	–
Impairment of non-current assets	5	(15)
Change in fair value of investment property	(14)	141
Penalties for cancellation of investment contract	(62)	–
Other	7	(6)
<b>Total Other income (expenses)</b>	<b>(233)</b>	<b>669</b>

**29. Finance income (costs)**

Finance income and costs, net for the year ended December 31, 2009 consisted of the following:

	<b>2009</b>	<b>2008 restated</b>
Interest income	212	397
Interest expense	(1,914)	(1,111)
Losses from sale of Group's bonds	(23)	–
<b>Total finance costs, net</b>	<b>(1,725)</b>	<b>(714)</b>

Interest income consists mainly of interests on loans granted to related parties (see Note 32).

The interest expense mainly consists of the coupons to the bonds issues, additional interest expense paid to FC Uralsib (see Note 20) and interests occurred on bank loans.

**30. Income taxes**

Income tax expense consisted of the following amounts:

	<b>2009</b>	<b>2008 restated</b>
Current income tax expense	(411)	(135)
Deferred income tax benefit (expense)	(642)	421
<b>Income tax benefit (expense)</b>	<b>(1,053)</b>	<b>286</b>

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**30. Income taxes (continued)**

Reconciliation between the income tax expense reported in the accompanying statements of comprehensive income and income before taxes multiplied by the statutory tax rate of 20% is as follows:

	<b>2009</b>	<b>2008 restated</b>
<b>Profit (Loss) before income tax</b>	<b>2,681</b>	<b>(1,929)</b>
Tax expense computed on income before taxes at the statutory tax rate of 20% (24% for 2008)	(536)	463
Effect of change in tax rate from 24% to 20%	–	24
Tax on intra-group dividends	(127)	–
Non-deductible inventory shortages	(67)	(10)
Goodwill impairment	(158)	–
Effect of non-deductible expense	(165)	(191)
<b>Income tax expense (benefit)</b>	<b>(1,053)</b>	<b>286</b>

The deferred tax balances were calculated by applying the statutory tax rate of 20% enacted at the respective balance sheet date. Temporary differences effects are as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Loss carried forward	116	51
Valuation of accounts receivable	–	2
Valuation of advances paid	–	58
Valuation of other current liabilities	–	2
Valuation of goods for resale	48	8
Valuation of accounts payable	–	17
Valuation of long term investments	–	2
Valuation of short term investments	–	58
Valuation of provisions	–	621
Valuation of other assets	–	11
<b>Total deferred tax asset</b>	<b>164</b>	<b>830</b>
Netting with deferred tax liability	(34)	(343)
<b>Deferred tax asset</b>	<b>130</b>	<b>487</b>

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**30. Income taxes (continued)**

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

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Property and equipment valuation	201	40
Valuation of investment property	27	–
Valuation of long term debt	21	22
Valuation of deferred charges	–	50
Valuation of intangible assets	–	–
Valuation of accounts receivable	–	8
Valuation of short term debt	–	59
Dividends payable	–	103
Goodwill	–	119
Other assets valuation	6	–
Other liabilities valuation	41	2
<b>Total deferred tax liability</b>	<b>296</b>	<b>403</b>
Netting with deferred tax assets	(34)	(343)
<b>Deferred tax liability</b>	<b>262</b>	<b>60</b>
<b>Net deferred tax liability</b>	<b>(132)</b>	<b>427</b>

Management considered the recoverability of tax benefits on accumulated tax losses within the allowable carry forward period. Based on the analysis management concluded that no valuation allowance is required.

**31. Earnings per share**

Basic and diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>2009</b>	<b>2008 restated</b>
Profit (loss) for the year	1,628	(1,644)
Weighted average number of ordinary shares for basic and diluted earnings per share	2,725,146,270	2,725,146,270
	<i>Russian Roubles</i>	<i>Russian Roubles</i>
Basic and diluted earnings (losses) per ordinary share	0.60	(0.60)

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**32. Related party transactions**

The significant related party transactions relate to Uralsib Group, Kopeyka Povolzhe Group in the first half of 2009, Onceil Trading Ltd, and other related parties.

Related party balances as of December 31, 2009 can be summarized as follows:

	Long term loans receivable (including interest accrued)	Short term loans receivable	Deposits & Cash	Long term loans payable (including interest accrued)	Other current liabilities	Total
<b>Entity with significant influence over Group</b>						
Uralsib Group	–	–	6	(810)	(10)	(814)
Onceil Trading Ltd	–	–	–	–	(479)	(479)
<b>Key management personnel of the Group</b>						
Directors' interests	20	1	–	–	–	21
<b>Total</b>	<b>20</b>	<b>1</b>	<b>6</b>	<b>(810)</b>	<b>(489)</b>	<b>(1,272)</b>

The related party balances were not secured or guaranteed by the Group as of December 31, 2009.

Related party balances as of December 31, 2008 can be summarized as follows:

	Long term loans receivable (including interest accrued)	Advances paid	Trade receivables	Short term loans receivable	Other current assets	Deposits & Cash	Total
<b>Entity with significant influence over Group</b>							
Uralsib Group	–	–	–	–	–	18	18
Onceil Trading Ltd	–	253	–	–	–	–	253
Kopeyka Povolzhe Group	1,063	–	1,128	–	89	–	2,280
<b>Key management personnel of the Group</b>							
Other	6	–	–	55	–	–	61
<b>Total</b>	<b>1,069</b>	<b>253</b>	<b>1,128</b>	<b>55</b>	<b>89</b>	<b>18</b>	<b>2,612</b>

Related party transactions in 2009 and in 2008 can be summarized as follows:

	2009	2008
Trade revenues (Franchise stores)	3,108	6,161
Trade revenues (Wholesales)	630	752
Rental income	76	75
Other income	45	91
Selling, general and administrative expenses	(813)	(1,147)
Gain (loss) from disposal of non-current assets	1	699
Interest income	198	391
Interest expense	(400)	(131)

Significant related party transactions included the sales to Kopeyka Povolzhe Group and the commission paid to Kopeyka Povolzhe Group in the first half year of 2009. The Group paid interest expenses in the amount of RR 400 and rent expenses in the amount of RR 218 to Uralsib Group in 2009 (See also Notes 20 and 35).

The Group reversed provision on related party loans, receivables, advances paid in the amount of RR 2,633 as the fair value of the payables of Kopeyka Povolzhe Group as of June 30, 2009 exceeded the recoverable amount of the Group's loans receivables and advances paid as of December 31, 2008. In 2008 the Group recognized a provision on these items of RR 3,185.



# OJSC "TD "KOPEYKA"

## Notes to consolidated financial statements (continued)

### 33. Compensation to key management personnel

Key management personnel comprise members of the Management Board and Board of Directors of the Group, totaling 18 persons as of December 31, 2009 (as of December 31, 2008: 16). Total compensation to key management personnel amounted to RR 177 in 2009 (2008: RR 179).

### 34. Share-based payment

In October 2009 the Group launched a senior executive share based payment program.

Remuneration on the program is cash settled only. All granted shares are virtual. Actual shares of the Group are not granted under the program.

A part of the value of granted virtual shares (nominal value of 7.46 Russian Roubles (0.26 USD) per virtual share) is fixed and guaranteed under the program. remuneration second part of the value of the granted virtual shares is flexible and is determined by market value (if Kopeyka shares are traded at the vesting date) or is calculated based on key performance indicators of the Group and average performance indicators of top three Russian public retail companies as of the vesting date as listed in the program.

The program foresees multiple grant dates. October 1, 2009 was the first and only grant date in the year ended December 31, 2009.

Fair value of virtual shares, accrued as of December 31, 2009, amounts to RR 16.

Vesting date of the program is December 31, 2011. Cash settlement on the program is to be made during the first six months of the year 2012.

The program lists certain other events, which may lead to a change in the vesting date. As of December 31, 2009 management had no evidence that any of these events would occur.

#### *Movements in the year*

The following table illustrates the number (№) and weighted average exercise price (WAEP) denominated in Russian Roubles at exchange rate as of the grant date and movements in share based transactions during the year:

	2009		2008	
	#	WAEP, Russian Roubles	#	WAEP, Russian Roubles
<b>Outstanding at January 1</b>	–	–	–	–
Granted during the year	2,137,357	7.46	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
<b>Outstanding at December 31</b>	<b>2,137,357</b>	<b>7.46</b>	–	–
Exercisable at December 31	–	–	–	–

## OJSC "TD "KOPEYKA"

### Notes to consolidated financial statements (continued)

#### **35. Commitments and contingencies**

##### *Operating environment of the Group*

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia.

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

##### *Taxation*

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

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

As of December 31, 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

The Group's policy is to accrue for tax provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of December 31, 2009. Management's estimate of the amount of possible liabilities including fines, which could be incurred in the event that tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group, is RR 40.

##### *Legal proceedings*

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

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**35. Commitments and contingencies (continued)**

*Purchase and lease commitments*

As of December 31, 2009 the Group had a number of outstanding cancelable and non-cancelable long-term lease contracts in which the rent is stated in Russian Roubles or calculated based on US Dollar and Euro exchange rates. The rent is paid when incurred on a monthly basis. Future minimum rentals payable under the operating leases (expressed in RR as converted at year-end exchange rate) were as follows as of December 31, 2009:

*Operating sublease commitments – group as a lessor*

	<b>Contracts in RR</b>
Within one year	362
After one year but not more than five years	–
<b>Total</b>	<b>362</b>

*Operating lease commitments – group as a lessee*

	<b>Contracts in RR</b>	<b>Linked to USD rate</b>	<b>Linked to EURO rate</b>	<b>Linked to EURO and RR rate</b>	<b>Linked to EURO and USD rate</b>
Within one year	1,613	552	11	10	90
After one year but not more than five years	5,674	1,774	49	44	308
More than five years	2,212	805	11	22	125
<b>Total</b>	<b>9,499</b>	<b>3,131</b>	<b>71</b>	<b>76</b>	<b>523</b>

*Finance lease commitments – group as lessee*

The Group has finance lease contract for Hewlett Packard IT equipment with the net carrying amount of RR 45 as of at December 31, 2009 (RR 63 as of December 31, 2008). Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	<b>Minimum payments</b>	<b>Present value of payments</b>
Within one year	13	10
After one year but not more than five years	5	3
<b>Total minimum lease payments</b>	<b>18</b>	<b>13</b>

*Sale and lease-back of real estate.*

In 2008, the Group sold 19 premises to the Real Estate Investment Trust (REIT) Uralsib-Arenda. The transaction resulted in profit of RR 641. The premises have been rented by the Group for the five-year period (July 2008 – July 2013). The rental rate is RR 21 per month (incl. VAT). See also Note 32.

## OJSC "TD "KOPEYKA"

### Notes to consolidated financial statements (continued)

#### 36. Operating segment information

Management views its business activities as one segment. Management makes decisions based on EBITDA operational and EBITDA.

Other income (expenses) relates to the gain (losses) from operations with non-current assets: impairment, write-off of non-currents assets and VAT from investment activities, change in fair value of investment property and other non-current assets. Therefore, these items are included in calculation of neither operational EBITDA, nor EBITDA.

Income statement of Group for management accounting purposes is:

	<b>2009</b>	<b>2008</b>
<b>EBITDA operational</b>	<b>3,745</b>	<b>2,105</b>
Pre-opening costs	(35)	(24)
<b>EBITDA</b>	<b>3,710</b>	<b>2,081</b>
Adjustments:		
Depreciation and amortization	(999)	(811)
Other income (expenses)	(233)	669
Provision for loans issued and investment advances paid to related parties	2,633	(3,185)
Impairment of goodwill	(791)	–
Net foreign exchange rate gain	86	30
Finance income	212	397
Finance costs	(1,937)	(1,111)
<b>Profit (loss) before income tax</b>	<b>2,681</b>	<b>(1,930)</b>
Income tax expense (benefit)	(1,053)	286
<b>Profit (loss) for the year</b>	<b>1,628</b>	<b>(1,644)</b>

The management considers operational EBITDA and EBITDA as key indicators reflecting operational performance of the Group.

#### 37. Financial instruments and financial risk management objectives and policies

##### *Financial risk management objectives and policies*

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

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

OJSC “TD “KOPEYKA”

Notes to consolidated financial statements (continued)

**37. Financial instruments and financial risk management objectives and policies (continued)**

*Interest rate risk*

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s short-term debt obligations with floating interest rates (Note 20). The Group’s policy is to manage its interest cost by monitoring changes in interest rates with respect to its borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before tax (though the impact on floating rate borrowings).

Given the current financial situation we estimate rising interest rates on the loans received as unlikely. The impact of the increase of the interest rates by 6 % is estimated below. However if the economic situation will improve, the interest rates may decrease. The impact of the decrease of the interest rates by 5% is estimated as well in the table below:

	<u>Increase/ decrease in basis points</u>	<u>Effect on profit before tax for the next year</u>
<b>As of December 31, 2009</b>	+600	(516)
	-500	430
<b>As of December 31, 2008</b>	+500	(27)
	-200	11

*Liquidity risk*

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

The table below summarizes the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments including future interest expenses (2008: RR 1,272; 2009: RR 2,263):

<b>December 31, 2009</b>	<b>Total</b>	<b>Less than 3 months</b>	<b>3 to 12 month</b>	<b>1 to 5 years</b>
Bank loans	9,233	1,599	2,817	4,817
Bonds issued	4,636	114	341	4,181
Other liabilities	1,456	1,456	–	–
Trade and Taxes payables	8,308	8,308	–	–
<b>Total</b>	<b>23,633</b>	<b>11,477</b>	<b>3,158</b>	<b>8,998</b>

  

<b>December 31, 2008 restated</b>	<b>Total</b>	<b>Less than 3 months</b>	<b>3 to 12 month</b>	<b>1 to 5 years</b>
Bank loans	1,312	81	1,231	–
Bonds issued	8,954	3,827	295	4,832
Other liabilities	2,141	2,141	–	–
Trade and Taxes payables	7,102	7,102	–	–
<b>Total</b>	<b>19,509</b>	<b>13,151</b>	<b>1,526</b>	<b>4,832</b>

There are no liabilities due in more than five years.

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**37. Financial instruments and financial risk management objectives and policies (continued)**

*Credit risk*

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

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

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

	Total	Neither impaired nor past due	Not impaired but past due for trade and other receivables			
			0-3 months	3-6 months	6-12 months	> 12 months
<b>December 31, 2009</b>						
Accounts receivable on services rendered	792	692	41	39	11	9
Bonuses from suppliers	695	600	35	44	13	3
Accounts receivable on goods sold	168	166	–	2	–	–
Accounts receivable from franchisees	91	91	–	–	–	–
Other	142	115	–	8	10	9
<b>Total</b>	<b>1,888</b>	<b>1,664</b>	<b>76</b>	<b>93</b>	<b>34</b>	<b>21</b>

	Total	Neither impaired nor past due	Not impaired but past due for trade and other receivables			
			0-3 months	3-6 months	6-12 months	> 12 months
<b>December 31, 2008 restated</b>						
Accounts receivable on services rendered	934	603	–	165	158	8
Bonuses from suppliers	518	508	–	9	1	–
Accounts receivable on goods sold	399	136	–	39	43	181
Accounts receivable from franchisees	102	75	–	22	3	2
Other	214	95	–	12	28	79
<b>Total</b>	<b>2,167</b>	<b>1,417</b>	<b>–</b>	<b>247</b>	<b>233</b>	<b>270</b>

The Group changed presentation of receivables aging by excluding from the analysis other current assets except interest accrued (in 2008: RR 102, in 2009: RR 5). Also the Group discloses breakdown of receivables as of December 31, 2009 in more detail and adjusted the comparatives as of December 31, 2008 accordingly.

The Group analyzed accounts receivable due more than six months by each counterparty. A reasonable bad debt provision was made (Note 9). Residual receivables were considered to be recoverable taking into account the scale of operations with the respective counterparty and other evidence.

*Capital risk management*

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

OJSC "TD "KOPEYKA"

Notes to consolidated financial statements (continued)

**37. Financial instruments and financial risk management objectives and policies (continued)**

*Capital risk management (continued)*

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

Management changed its view on what it manages capital. Trade and tax payables are not considered as part of capital as of December 31, 2009 as they were as of December 31, 2008. The Group includes within net debt borrowings, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent.

	<b>December 31, 2009</b>	<b>December 31, 2008 restated</b>
Borrowings	11,606	8,994
Less: cash and cash equivalents	1,472	489
<b>Net debt</b>	<b>10,134</b>	<b>8,505</b>
Equity	3,555	1,927
<b>Capital and net debt</b>	<b>13,689</b>	<b>10,432</b>
<b>Gearing ratio</b>	<b>74%</b>	<b>82%</b>

*Fair values*

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

	<b>December 31, 2009</b>		<b>December 31, 2008 restated</b>	
	<b>Fair value</b>	<b>Net carrying amount</b>	<b>Fair value</b>	<b>Net carrying amount</b>
<b>Financial assets</b>				
Long term loans	42	42	748	748
Short term loans	31	31	55	55
Trade and other receivables	1,896	1,896	2,590	2,590
Cash and cash equivalents	1,472	1,472	489	489
<b>Financial liabilities</b>				
Long-term debt (bonds)	3,810	3,753	3,630	3,672
Short-term debt (bonds)	—	—	3,866	3,866
Long-term borrowings	4,897	4,681	—	—
Short-term borrowings	3,172	3,172	1,441	1,441
Trade and other payables	9,381	9,381	8,733	8,733

The fair value of long-term debt (bonds) is the market value of Group's bonds traded on market. Fair values of cash and cash equivalents, trade and other receivables and short-term borrowings, trade and other payables approximate their carrying amounts due to their short maturity. A discount rate of 12.16% was used to estimate the fair value of the long-term debt.

## OJSC "TD "KOPEYKA"

### Notes to consolidated financial statements (continued)

#### **38. Subsequent events**

On January 12, 2010 the Company and Onceil Trading Ltd decided to increase the amount of consideration for the purchase of Kopeyka Povolzhe Group by RR 576 taking into account the delay in settlement of payments for the purchase since 2007. On March 31, 2010 the Group settled the payables to Onceil Trading Ltd for the purchase of Kopeyka Povolzhe Group.

On January 15, 2010 the loan from Raiffeisenbank CJSC in the amount RR 21 was fully repaid and the assets under the pledge were released.

In July 2009 the Group signed a long-term loan agreement with Sberbank Rossii OJSC. The amount of the loan in the amount of RR 2,000 was drawn in February 2010 and is secured by 31 real estate premises (RR 1,176).

On February 24, 2010 the Group repaid the loan from Sberbank Rossii OJSC in the amount of RR 600.

In February and March 2010 the Group acquired 549,128 bonds of its third bond issue and sold 511,706 bonds of its second issue.

On March 1, 2010 the loan in the amount of RR 800 from FC Uralsib was repaid.

The Group disposed LLC "Trade Firm "Makedonia" and LLC "Kopeyka Yaroslavl" in March 2010.

On April 1, 2010 the Group purchased 100% shares of CJSC "Develop Group", a Russian company, owner of twelve store premises at a price of RR 297 which was fully paid in cash.