



## OJSC MAGNIT

### Offering of 9,719,638 ordinary shares in the form of ordinary shares and global depositary receipts

#### Offer Price: US\$42.50 per Share and US\$8.50 per Global Depositary Receipt

This prospectus (the “**Prospectus**”) relates to an offering by OJSC Magnit, an open joint stock company organized under the laws of the Russian Federation (the “**Company**”), of 5,065,860 newly issued ordinary shares in the share capital of the Company each with a nominal value of 0.01 Roubles (the “**Ordinary Shares**”), in the form of global depositary receipts (the “**GDRs**”), with five GDRs representing an interest in one Ordinary Share which, together with an offering by Lavreno Limited, a company incorporated under the laws of the Republic of Cyprus (the “**Selling Shareholder**”) of 4,653,778 Ordinary Shares, constitutes the global offering (the “**Global Offering**”). We are seeking the approval of the United Kingdom Financial Services Authority (the “**FSA**”) in accordance with the prospectus rules (the “**Prospectus Rules**”) of the FSA made under section 73A of the Financial Services and Markets Act 2000 (“**FSMA**”) only in relation to the offering of the GDRs. We have not applied for any such approval of the FSA in relation to the offering of the Ordinary Shares.

In connection with this offering, the Company will issue up to 11,300,000 new Ordinary Shares (the “**New Shares**”) to be placed through an open subscription (the “**Share Issue**”). Our shareholders of record as of February 12, 2008 have statutory pre-emptive rights under Russian law to subscribe for the New Shares *pro rata* to their existing shareholdings as of that date. See “*The Global Offering—Pre-emptive Rights.*” Ordinary Shares being offered in the Global Offering, including the New Shares, are referred to herein as “**Shares**.” The GDRs and the Shares are being offered (i) in the United States to certain qualified institutional buyers (“**QIBs**”), as defined in, and in reliance on, Rule 144A (“**Rule 144A**”) under the US Securities Act of 1933, as amended (the “**Securities Act**”), and (ii) outside the United States and the Russian Federation, in offshore transactions in reliance on Regulation S under the Securities Act (“**Regulation S**”). The Shares are also being offered in the Russian Federation in reliance on Regulation S. See “*Plan of Distribution.*”

The Selling Shareholder has granted to Deutsche Bank AG, London Branch, and Morgan Stanley & Co. International plc (the “**Managers**”) an option (the “**Over-allotment Option**”), exercisable within 15 days after the announcement of the offer price, to purchase up to an additional 506,586 Ordinary Shares in the form of GDRs at the offer price solely to cover over-allotments, if any, in the Global Offering. See “*Plan of Distribution.*”

The Share Issue was registered by the Federal Service for the Financial Markets of the Russian Federation (the “**FSFM**”) under state registration number 1-01-60525-P-004D on March 20, 2008. Our Ordinary Shares other than the New Shares are listed on list “**B**” of the Russian Trading System stock exchange (“**RTS**”) and the Moscow Interbank Currency Exchange (“**MICEX**”), in each case under the symbol “MGNT”. See “*Company’s Stock Trading History.*” Application will be made to list the New Shares on RTS and for admission to trading on MICEX. The New Shares are expected to be traded on RTS under the symbol “MGNT” and on MICEX under the temporary symbol “MGNT-004D”, following admission to trade within the first three months after the filing of the notice on the results of the placement of the New Shares (the “**Placement Notice**”) with the FSFM, following which the New Shares are expected to be traded on MICEX under the symbol “MGNT”. Prices for the Ordinary Shares traded on RTS and MICEX may not reflect the value of the GDRs. Prior to the Global Offering, there has been no public market for the GDRs.

This document comprises a prospectus relating to the Company prepared in accordance with the prospectus rules of the FSA made under section 73A of the FSMA. Application has been made (i) to the FSA, in its capacity as competent authority under the FSMA, for a block listing of up to 57,610,000 GDRs, consisting of 25,329,300 GDRs to be issued on or about April 21, 2008 (the “**GDR Closing Date**”), up to 2,532,930 GDRs to be issued in connection with the Over-allotment Option and up to 29,747,770 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with JPMorgan Chase Bank, N.A., as depositary (the “**Depositary**”), to be admitted to the official list of the FSA (the “**Official List**”) and (ii) to the London Stock Exchange plc (the “**London Stock Exchange**”), for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market (the “**Regulated Market**”) for listed securities, which is regulated for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Conditional trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when issued basis on or about April 16, 2008. Admission to the Official List and to trading on the London Stock Exchange’s Regulated Market (together, the “**Admission**”) is expected to take place on or about April 21, 2008. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission does not take place and will be at the sole risk of the parties concerned.** Application has also been made to have the Rule 144A GDRs designated eligible for trading on the PORTAL Market of the Nasdaq Stock Market, Inc. (“**PORTAL**”).

**See “Risk Factors” beginning on page 8 for a discussion of certain risks that prospective investors should consider prior to making an investment in the Shares or the GDRs. The Shares and the GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.**

The Global Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Shares and the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the Shares and the GDRs, see “*Terms and Conditions of the GDRs*” and “*Transfer and Selling Restrictions.*”

The Shares and the GDRs are offered by the Managers when, as and if delivered to and accepted by the Managers and subject to their right to reject any order in whole or in part. The GDRs offered and sold in the United States (the “**Rule 144A GDRs**”) will be evidenced by a Master Rule 144A Global Depositary Receipt Certificate (the “**Master Rule 144A GDR Certificate**”) registered in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”), and the GDRs offered and sold outside the United States (the “**Regulation S GDRs**”) will be evidenced by a Master Regulation S Global Depositary Receipt Certificate (the “**Master Regulation S GDR Certificate**”) and, together with the Master Rule 144A GDR Certificate, the “**Master GDR Certificates**”) registered in the name of BNP Paribas Security Services, Luxembourg Branch (“**BNP Paribas**”), as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”), and Clearstream Banking, société anonyme (“**Clearstream**”). It is expected that delivery of the GDRs will be made against payment therefor in US Dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about the GDR Closing Date. Delivery of the Shares to investors is expected to commence on or about April 21, 2008.

*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*

**Deutsche Bank**

**Morgan Stanley**

Prospectus dated April 16, 2008



## IMPORTANT INFORMATION

By accepting delivery of this Prospectus, you agree to the following. This Prospectus is being furnished by the Company and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the Shares or the GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares or the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Selling Shareholder or the Managers that any recipient of this Prospectus should subscribe for or purchase the Shares or the GDRs. Each potential subscriber or purchaser of Shares or GDRs should determine for itself the relevance of the information contained in this Prospectus and its subscription or purchase of Shares or GDRs should be based upon such investigation as it deems necessary.

This Prospectus, including the financial information included herein, is in compliance with the prospectus rules of the FSA, which comply with the provisions of Directive 2003/71/EC (“**Prospectus Directive**”) for the purpose of giving information with regard to the Company, the Shares and the GDRs.

The Company accepts responsibility for the information contained in this Prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Company’s knowledge, in accordance with the facts and contains no omissions likely to affect its import.

**This Prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to purchase or otherwise acquire the Shares or the GDRs. In making an investment decision regarding the Shares or the GDRs, you must rely on your own examination of the Company and the terms of the Global Offering, including the merits and risks involved. You should rely only on the information contained in this Prospectus. None of the Company, the Selling Shareholder or the Managers has authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Prospectus is accurate only as of its date. Our business, financial condition, results of operations, prospects and the information set forth in this Prospectus may have changed since the date of this Prospectus.**

We have included our own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While we believe that our own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by us accurately reflects the state of the industry and the markets in which we operate, there is no assurance that our own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

You should not consider any information in this Prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares or the GDRs. None of the Company, the Selling Shareholder or the Managers makes any representation to any offeree or purchaser of the Shares or the GDRs regarding the legality of an investment in the Shares or the GDRs by such offeree or purchaser under applicable investment or similar laws.

The Managers are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Global Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Global Offering.

In connection with the Global Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase, as the case may be, Shares or GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Global Offering or otherwise. Accordingly, references in this Prospectus to the Shares

or the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers or any of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

We may withdraw the Global Offering at any time, and we, the Selling Shareholder and the Managers reserve the right to reject any offer to purchase the Shares or the GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the Shares or the GDRs sought by such investor.

The distribution of this Prospectus and the offer and sale of the Shares and the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “*Terms and Conditions of the GDRs*” and “*Transfer and Selling Restrictions*” elsewhere in this Prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Shares or the GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the Shares or the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of the Company, the Selling Shareholder or the Managers is making an offer to sell the Shares or the GDRs or a solicitation of an offer to buy any of the Shares or the GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

## STABILIZATION

In connection with this Global Offering, Morgan Stanley & Co. International plc, as stabilizing manager (the “**Stabilizing Manager**”), or its agents may, for a limited period after the announcement of the offer price, over-allot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the Stabilizing Manager or such agents have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the offer price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but will be discontinued in any event no later than 15 calendar days after the date of such adequate public disclosure of the offer price. The Managers do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with this Global Offering, the Managers may over-allot GDRs as permitted by applicable law. For the purposes of allowing the Managers to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by them during the stabilizing period, the Selling Shareholder has granted the Managers the Over-allotment Option, pursuant to which the Managers may require the Selling Shareholder to sell additional Ordinary Shares to be issued by the Depositary as GDRs at the offer price. The Over-allotment Option is exercisable in whole or in part upon written notice by the Managers on one or more occasions at any time on or before the fifteenth calendar day after adequate public disclosure of the offer price has been made. Any GDRs made available pursuant to the Over-allotment Option will be issued at the same price and on the same terms and conditions as the GDRs being issued in the Global Offering and will form a single class for all purposes with the other GDRs.

## NOTICE TO CERTAIN INVESTORS

### Notice to UK and other EEA Investors

This Prospectus and the Global Offering are only addressed to and directed at persons in member states of the European Economic Area (“**EEA**”), who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC, (including any relevant implementing measure in each relevant member state of the EEA) the “**Prospectus Directive**”). In addition, in the United Kingdom, this Prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). The Shares and the GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and

(2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This Prospectus has been prepared on the basis that all offers of the Shares and the GDRs other than the offers contemplated in the Prospectus in the United Kingdom following approval by the FSA will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a prospectus for offers of the Shares and the GDRs. Accordingly, any person making or intending to make any offer within the EEA of the Shares or the GDRs should only do so in circumstances in which no obligation arises for us, the Selling Shareholder or any of the Managers to produce a prospectus for such offer. None of the Company, the Selling Shareholder or the Managers has authorized or authorizes the making of any offer of the Shares or the GDRs through any financial intermediary, other than offers made by the Managers which constitute the final placement of the Shares and the GDRs contemplated in this Prospectus.

#### **Notice to Investors in the Russian Federation**

This Prospectus should not be considered as a public offer or advertisement of the GDRs in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any GDRs in the Russian Federation. Neither the GDRs nor any prospectus or other document relating to them have been or will be registered with the FSFM and are not intended for “placement” or “public circulation” in the Russian Federation. Any information on the GDRs in this Prospectus is intended for, and addressed to, persons outside of the Russian Federation. The GDRs are not being offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

#### **Notice to United States Investors**

NEITHER THE US SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SHARES OR THE GDRs OR DETERMINED WHETHER THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

#### **Notice to New Hampshire Residents Only**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### **FORWARD LOOKING STATEMENTS**

This Prospectus contains forward looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), which reflect our views with respect to our results of operations, financial condition, business strategy and our plans and objectives for future operations.

These forward looking statements relate to us and the industry in which we operate. Statements that include the words “expect”, “intend”, “plan”, “believe”, “project”, “anticipate”, “will”, “target”, “aim”, “may”, “would”, “could”, “continue” and similar statements of a future or forward looking nature identify forward looking statements for purposes of the US federal securities laws or otherwise.

All forward looking statements included in this Prospectus address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. These factors include but are not limited to the following:

- changes in political, social, legal or economic conditions in Russia;
- our ability to obtain necessary regulatory approvals and licenses for our business;
- our ability to service our existing indebtedness;
- our ability to fund future operations and capital needs through borrowings or otherwise;
- our ability to successfully implement any of our business strategies;
- our expectations about growth in demand for products we sell;
- our ability to continue the roll-out of our hypermarket strategy as planned;
- competition in the marketplace;
- inflation and interest rates;
- our ability to respond to legal and regulatory developments and restrictions in relation to the retail industry;
- our success in identifying other risks to our business and managing the risks of the aforementioned factors; and
- those described in the part of this Prospectus entitled “*Risk Factors*,” which should be read in conjunction with the other cautionary statements that are included in this Prospectus.

Any forward looking statements in this Prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our business, results of operations, financial condition, growth strategy and liquidity.

Any forward looking statements speak only as of the date of this Prospectus. Subject to any obligations under the listing rules of the FSA (the “**Listing Rules**”) and other applicable law, we undertake no obligation to update publicly or review any forward looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward looking statements attributable to us, and those acting on behalf of us, are expressly qualified in their entirety by this section. Prospective investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ before making an investment decision.

#### **AVAILABLE INFORMATION**

We have agreed that for so long as any Shares or GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

#### **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

Our and the Selling Shareholder’s presence outside the United States and the United Kingdom may limit the legal recourse investors have against us. The Company is an open joint stock company organized under the laws of the Russian Federation and the Selling Shareholder is incorporated under the laws of the Republic of Cyprus. Most of our directors and senior managers named in this Prospectus reside outside the United States and the United Kingdom, principally in Russia. All of our assets and a substantial portion of the assets of our directors and senior managers are located outside the United States and the United Kingdom, principally in Russia. All of the assets of the Selling Shareholder are located outside the United States and the United Kingdom. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon us, our directors or senior managers or the Selling Shareholder or enforce US or UK court judgments obtained against us, our directors or senior managers or the Selling Shareholder in jurisdictions outside the United States and the

United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in Russia unless (i) there is an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

We are not aware of a treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom or the United States and the Russian Federation. However, we are aware of at least one instance in which Russian courts have recognized and enforced an English court judgment. The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court would be inclined in any particular instance to recognize and enforce an English court judgment on these grounds.

In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of any court judgment, or completely deprive investors of effective legal recourse for claims related to their investment in the Shares or the GDRs.

Under the terms of the Deposit Agreement (as defined in “*Prospectus Summary—The Global Offering—The GDRs*”), any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreement or any transaction contemplated therein, the Shares or other deposited securities may be referred to and resolved by arbitration in accordance with the rules of the London Court of International Arbitration, as more fully described in the Deposit Agreement.

The Russian Federation is party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, Russian courts should generally recognize and enforce in the Russian Federation an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including:

- the inexperience of the Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favor of foreign investors; and
- the inability of Russian courts to enforce such awards.

The Arbitrazh procedural code of the Russian Federation (the “**Arbitrazh Procedural Code**”) sets out certain grounds for Russian courts to refuse to recognize and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts’ judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or foreign arbitral award in the Russian Federation.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Prospectus:

- all references to “**US Dollar**”, “**US Dollars**” or “**US\$**” are to the currency of the United States;
- all references to “**Rouble**”, “**Roubles**” or “**RUB**” are to the currency of the Russian Federation;
- all references to “**euro**” or “**€**” are to the currency of the member states of the European Union participating in the European Monetary Union;
- all references to the “**United States**” are to the United States of America;
- all references to the “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland;
- all references to the “**EU**” are to the European Union and its member states as at the date of this Prospectus;
- all references to the “**Central Federal District**” are to the federal district of the Russian Federation that includes the city of Moscow and the Belgorod, Bryansk, Ivanovo, Kaluga, Kostroma, Kursk, Lipetsk, Moscow, Orel, Ryazan, Smolensk, Tambov, Tver, Tula, Vladimir, Voronezh and Yaroslavl regions (*oblasti*);
- all references to the “**Southern Federal District**” are to the federal district of the Russian Federation that includes the republics of Adygeya, Daghestan, Ingushetia, Kalmykia and North Ossetia-Alania, the Chechen republic, the Kabardino-Balkarian republic, the Karachayevo-Circassian republic, the Krasnodar and Stavropol territories (*kraya*) and the Astrakhan, Rostov and Volgograd regions (*oblasti*);
- all references to the “**Volga Federal District**” are to the federal district of the Russian Federation that includes the republics of Bashkortostan, Marii El, Mordovia and Tatarstan, the Udmurtian republic, the Chuvash republic, the Perm territory (*krai*) and the Kirov, Nizhny Novgorod, Orenburg, Penza, Samara, Saratov and Ulyanovsk regions (*oblasti*);
- all references to the “**North-Western Federal District**” are to the federal district of the Russian Federation that includes the city of St. Petersburg, the republic of Karelia, the Komi republic, the Arkhangelsk, Kaliningrad, Leningrad, Murmansk, Novgorod, Pskov and Vologda regions (*oblasti*) and the Nenets autonomous area (*okrug*);
- all references to the “**Urals Federal District**” are to the federal district of the Russian Federation that includes the Chelyabinsk, Kurgan, Sverdlovsk and Tyumen regions (*oblasti*) and the Yamalo-Nenets and Khanty-Mansi autonomous areas (*okrug*);
- all references to the “**Siberian Federal District**” are to the federal district of the Russian Federation that includes the republics of Altai, Buryatia, Khakassia and Tyva, the Altai, Krasnoyarsk and Zabaykalsky territories (*kraya*) and the Irkutsk, Kemerovo, Novosibirsk, Omsk, Tomsk regions (*oblasti*);
- all references to the “**Far East Federal District**” are to the federal district of the Russian Federation that includes the republic of Sakha (Yakutia), the Kamchatka, Khabarovsk and Primorie territories (*kraya*), the Jewish autonomous region (*oblast*), the Amur, Magadan and Sakhalin regions (*oblasti*) and the Chukotka autonomous areas (*okrug*); and
- references to “**CIS**” are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members or associate members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Unless the context otherwise requires, all references in this Prospectus to the “**Company**” are to OJSC Magnit and all references in this Prospectus to the “**Group**” refer collectively to the Company and its consolidated subsidiaries. All references in this Prospectus to “**we**”, “**us**”, “**our**” and similar terms refer to the Company or the Group, as the context may require.

### Presentation of Financial Information

Our audited consolidated financial statements as of and for the years ended December 31, 2005, 2006 and 2007 (together, the “**Consolidated Financial Statements**”) included in this Prospectus have been prepared



in accordance with International Financial Reporting Standards (“IFRS”). IFRS differ in certain significant respects from generally accepted accounting principles in the United States (“US GAAP”). Prospective investors should consult their own advisers for an understanding of the differences between IFRS and other accounting principles, including US GAAP, and how these differences might affect the financial statements and information herein.

Our functional currency, which reflects the economic substance of our operations, is the Rouble. The presentation currency of the Consolidated Financial Statements is the US Dollar. Although financial information is presented in US Dollars, investors in the Shares or the GDRs should not construe those translations as representation that those amounts could be converted from one currency to another at any particular rate or at all.

Due to reclassifications made in connection with the preparation of the Consolidated Financial Statements, including, without limitation, with respect to selling expenses, general and administrative expenses, transportation expenses, depreciation, other income and other expenses, our previously prepared consolidated financial statements for the years ended December 31, 2006 and December 31, 2005 that were made publicly available, including on our web site, are not comparable in all respects to the Consolidated Financial Statements.

### **Presentation of Non-IFRS Measures**

Throughout this Prospectus, we have presented certain non-IFRS measures in the Prospectus, namely EBITDA and other EBITDA related measures (e.g. EBITDA margin), net debt to EBITDA ratio and net tangible book value per Ordinary Share.

The Company defines EBITDA as profit for the year before net finance costs (equal to finance costs minus investment income), income tax expense and depreciation and amortization. EBITDA margin is EBITDA as percentage of revenue. The Company uses EBITDA and EBITDA margin in its business operations to, among other things, evaluate the performance of its operations, develop budgets and measure its performance against those budgets. The Company finds these measures to be a useful tool to assist in evaluating performance because they eliminate items related to finance costs, taxes and depreciation and amortization. Further, the Company believes that EBITDA is commonly reported by comparable businesses and used by investors in comparing the performance of businesses on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred). EBITDA and EBITDA margin may not be comparable to similarly titled measures disclosed by other companies and investors should not use this non-IFRS measure as a substitute for the figures provided in our Consolidated Financial Statements.

Net debt is calculated as the sum of short-term and long-term loans (including obligations under finance leases) minus cash and cash equivalents. Net debt to EBITDA is a ratio calculated by dividing net debt by EBITDA (as defined above). The Company uses this measure as the principal statistic for evaluating the impact of the total size of our borrowings on our operations.

Net tangible book value per Ordinary Share represents the amount of the Group’s equity attributable to equity holders of the parent less intangible assets, divided by the number of its Ordinary Shares issued and outstanding at the relevant date.

### **Presentation of Operating Information**

In this Prospectus, we present certain operating information regarding our convenience stores and hypermarkets, including tickets per square meter of selling space, like for like retail revenue growth, number of tickets, changes in like for like number of tickets, average ticket size and growth in like for like average ticket size. We calculate this operating information on the basis of certain assumptions made by us. As a result, this operating information may not be comparable to similar operating information reported by other companies.

Like for like information in this Prospectus only includes data for our mature convenience stores, which are those convenience stores that had been open a minimum of six months at the start of the first of the two consecutive years for which such information is provided. Like for like retail revenue growth is a comparison between two consecutive financial periods of the retail revenue in Roubles of all our convenience stores that were open for at least six months prior to the beginning of the first of the two consecutive years and not closed permanently, expanded or downsized by the end of the second of the two consecutive years, and is expressed as a percentage. We also present like for like retail revenue

growth based on like for like retail revenue measured in US Dollars, which is calculated by dividing like for like retail revenue in Roubles for a particular year by the average exchange rate between the Rouble and the US Dollar for that year that we use in translating income and expenses from Roubles into US Dollars in the Consolidated Financial Statements (RUB 28.2262 per US\$1.00 for the year ended December 31, 2005; RUB 27.1852 per US\$1.00 for the year ended December 31, 2006; and RUB 25.5770 per US\$1.00 for the year ended December 31, 2007, each such average exchange rate being the “**Average Exchange Rate**” for that year).

In the case of average ticket size, such operating information is calculated on the basis of our retail revenue, net of value-added tax (“**VAT**”) and reduced for estimated customer returns, and translated from Roubles into US Dollars at the Average Exchange Rate. We use historical information in relation to the timing and frequency of customer returns to estimate and provide for such returns at the time of sale.

Number of tickets in any year is the total number of purchases that were made at all of our convenience stores during the entire year. Changes in like for like number of tickets is a comparison between two consecutive financial periods of the number of tickets in all of our convenience stores that were open for at least six months prior to the beginning of the first of the two consecutive years and not closed permanently, expanded or downsized by the end of the second of the two consecutive years, and is expressed as a percentage.

Average ticket at our convenience stores is the average value in US Dollars of purchases made at our convenience stores. Average ticket at our convenience stores is calculated by dividing (i) the total amount of retail revenue at all of our convenience stores, net of VAT and reduced for estimated customer returns, translated from Roubles into US Dollars at the Average Exchange Rate by (ii) the number of tickets at our convenience stores in that year. Growth in like for like average ticket size is a comparison between two consecutive financial periods of the average ticket at all of our convenience stores that were open for at least six months prior to the beginning of the first of the two consecutive years and not closed permanently, expanded or downsized by the end of the second of the two consecutive years, and is expressed as a percentage.

Average selling space for our convenience stores as of December 31 of a particular year is calculated by dividing the aggregate selling space of all of our convenience stores as of December 31 of that year by the total number of our convenience stores as of December 31 of that year. Average selling space for our hypermarkets as of December 31, 2007 is calculated by dividing the aggregate selling space of all of our hypermarkets as of December 31, 2007 by the total number of our hypermarkets as of December 31, 2007.

Tickets per square meter of selling space in our stores (which includes both convenience stores and hypermarkets) is calculated for each day of the relevant year by dividing the total number of purchases made at all of our stores during such day by the total selling space of our stores as of that day and then calculating the average tickets per square meter of selling space information for the year across all 365 days.

### **Presentation of Market Share and Industry Data**

The market, industry and market share data contained in this Prospectus have been taken from industry reports and, in some cases, management estimates. In particular, this data has been sourced from reports published by the Federal State Statistics Service (“**Rosstat**”), A.T. Kearney (“*Growth Opportunities for Global Retailers; The A.T. Kearney 2007 Global Retail Development Index*”), Euromonitor International (“*Retailing—World: Euromonitor International: Global Market Insight, May 2007*” and “*Retailing—Russia; Euromonitor International: Country Market Insight, July 2007*”) and INFOline (“*State of Retail Trade in 18 Regions of Russia; 2007*” and “*Retail Chains: IV Quarter of 2007*”) (“**Infoline**”). We confirm that this data has been accurately reproduced and, so far as we are aware and have been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, in the preparation of this Prospectus, this third party information has not been independently verified nor has there been any investigation of the validity of the methodology of, or the basis used by, the third parties in producing such data or making estimates and forecasts. We, the Selling Shareholder or the Managers cannot give any assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate. We name sources of third party information whenever such third party information is used in this Prospectus.

## Rounding

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them, and the figures expressed as percentages may not total 100% when aggregated.

## Exchange Rate Information

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Rouble and the US Dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the “**CBR**”). These rates may differ from the actual rates used in the preparation of our Consolidated Financial Statements.

<u>Years ended December 31,</u>	<u>Roubles per US Dollar</u>			<u>Period end</u>
	<u>High</u>	<u>Low</u>	<u>Average<sup>(1)</sup></u>	
2003	31.88	29.25	30.69	29.45
2004	29.45	27.75	28.81	27.75
2005	29.00	27.46	28.29	28.78
2006	28.78	26.18	27.19	26.33
2007	26.58	24.26	25.58	24.55

- (1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

<u>Months</u>	<u>Roubles per US Dollar</u>			<u>Period end</u>
	<u>High</u>	<u>Low</u>	<u>Average<sup>(1)</sup></u>	
January 2008	24.89	24.29	24.50	24.48
February 2008	24.78	24.12	24.54	24.12
March 2008	24.05	23.51	23.76	23.52

- (1) The average rates are calculated as the average of the daily exchange rates on each business day (which rate is announced by the CBR for each such business day) and on each non-business day (which rate is equal to the exchange rate on the previous business day).

The exchange rate between the Rouble and the US Dollar quoted by the CBR on April 16, 2008 was RUB 23.4549 per US\$1.00.

## TABLE OF CONTENTS

Prospectus Summary .....	1
Risk Factors.....	8
The Global Offering.....	36
Use of Proceeds .....	42
Dividend Policy.....	43
Capitalization.....	44
Dilution .....	45
Selected Consolidated Financial Information .....	46
Operating and Financial Review .....	48
Russian Food Retail Industry.....	77
Business .....	81
Regulation of Food Retail and Real Estate in Russia.....	103
Management and Corporate Governance .....	110
Principal Shareholders and Selling Shareholder .....	117
Related Party Transactions.....	119
Description of Share Capital and Applicable Russian Legislation .....	121
Terms and Conditions of the GDRs .....	138
Summary of Provisions Relating to the GDRs while in Master Form .....	162
Taxation .....	164
Plan of Distribution .....	174
Transfer and Selling Restrictions.....	177
Clearing and Settlement .....	182
Information Relating to the Depository.....	185
Company's Stock Trading History .....	186
Legal Matters .....	188
Auditors .....	189
General Information .....	190
Index to Consolidated Financial Statements .....	F-1

## PROSPECTUS SUMMARY

*Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA, no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this Prospectus before legal proceedings are initiated.*

*The following summary information should be read as an introduction to the Prospectus. Any decision by a prospective investor to invest in the Shares or GDRs should be based on consideration of this Prospectus as a whole and not solely on this summarized information.*

### Overview

We operate convenience stores and hypermarkets in the Russian Federation under the “Magnit” brand name. We believe that we are the largest food retailer in Russia by the number of stores that we operate and one of the largest by volume of sales. Based in Krasnodar, in the Southern Federal District, we have grown rapidly in recent years, expanding our operations to five out of the seven federal districts in Russia with store locations in more than 700 cities and towns. As of December 31, 2007, we operated 2,194 convenience stores with an aggregate selling space of approximately 640,068 square meters, three hypermarkets with an aggregate selling space of approximately 11,590 square meters and eight distribution centers with an aggregate warehousing space of approximately 137,561 square meters. As of the same date, more than 70% of our convenience stores and two of our three hypermarkets were located in cities and towns with a population of less than 500,000 people, where we believe there is generally less competition from the other major Russian food retailers, there is a larger proportion of low and middle-income consumers who are core target customers of our convenience stores and rent and labor expenses are lower than in the largest Russian cities. As of March 15, 2008, we had increased the number of our convenience stores to 2,219 and the number of our hypermarkets to five.

Our convenience stores offer approximately 1,300 to 4,300 stock keeping units (“SKUs”) and our hypermarkets offer approximately 9,500 to 13,200 SKUs. As of December 31, 2007, our convenience stores and hypermarkets had, on average, 292 square meters and 3,863 square meters of selling space, respectively.

Our convenience stores principally target low and middle-income consumers living within 500 meters of each store. We believe that our convenience stores offer customers low prices (relative to traditional and modern retail formats other than hypermarkets), an attractive product mix and a functional store layout and are conveniently located close to customers’ homes. As of March 15, 2008, we owned 566 of our convenience stores and leased the remaining 1,653 stores. We expect that the proportion of convenience stores that we own will remain at approximately the same level in the near and medium term.

Our hypermarkets target customers who live in the areas near our hypermarkets as well as consumers who live farther away but may travel by car to one of our hypermarkets to do their shopping. We opened our first hypermarket in Krasnodar in October 2007. Most of our hypermarkets are located in towns with populations of less than 200,000 where they currently face little or no competition from other hypermarkets. Most of our hypermarkets are located in or near the center of the relevant city or town and are therefore easily accessible. In comparison with our convenience stores, our hypermarkets offer a much larger selection of products, including a significantly greater share of non-food and long shelf-life food products. As of March 15, 2008, we owned one out of five hypermarkets which we operated and were in the process of receiving title to the remaining four hypermarkets. As of that date, we also owned two out of five land plots on which our hypermarkets are located, with two of the remaining three land plots leased from municipal authorities on a long-term basis and the remaining land plot being transferred into our ownership by the company that built the hypermarket for us. As of that date, an additional 29 hypermarkets were under construction and we owned an additional 15 land plots and leased on a long-term basis one additional land plot on which we currently plan to construct hypermarkets.

Our in-house logistics system consists principally of eight distribution centers located in four out of the five federal districts in which we operate and our own fleet of 899 delivery trucks (as of March 15, 2008). This system allowed us to distribute through our distribution centers goods that we estimate accounted for approximately 71% of our cost of goods sold in 2007.

In 2007, we had total revenue of US\$3,676.6 million, EBITDA of US\$219.2 million and profit for the year of US\$97.4 million. Our gross margin, EBITDA margin and net margin were 19.9%, 6.0% and 2.6%, respectively, in 2007.

### **Competitive Strengths**

We believe that the following strengths have contributed to our success and will continue to constitute our competitive advantages, supporting our strategy and contributing to further improvements in our results of operations and financial condition:

- Focus on Smaller Population Centers
- Leading Market Position with Broad Geographic Coverage
- Strong Platform to Continue Rapid Expansion of Our Hypermarket Operations
- Efficient Logistics System
- Sophisticated IT Systems
- Experienced Management Team
- Strong Financial Performance

### **Strategy**

Our primary strategic objective is to increase shareholder value by strengthening our position as a market leader in the Russian food retail market. To achieve this objective, we plan to focus on the following key strategies:

- Grow Our Convenience Store Operations in Existing Markets and Expand Selectively into New Geographic Areas in Russia
- Expand Our Hypermarket Operations
- Implement Additional Measures to Improve the Profitability of Our Operations

### **Risk Factors**

An investment in the Shares or the GDRs involves risk, including those relating to or arising from the Group's business and industry, political, social, economic, legislative and legal risks associated with the Russian Federation and risks arising from the nature of the Shares and the GDRs and the markets upon which they are or are expected to be traded, including the following:

#### ***Risks Relating to Our Business and Industry***

- The markets in which we operate are highly competitive;
- We may be unable to effectively manage the rapid expansion of our business, including our hypermarket operations;
- We may fail to comply with existing governmental regulations, or governmental regulation of our operations may increase;
- Increases in prices charged by food producers may have a material adverse effect on our profitability if we are unable to pass on such increases to customers;
- We may require additional capital in the future, which may not be available or may only be available on unfavorable terms;
- We depend on our ability to lease or acquire appropriate real estate on commercially acceptable terms, to protect our real property rights, to build new stores on newly acquired sites and to develop new stores on newly acquired premises;
- We lease a large proportion of our stores and there is no assurance that we will be able to continue to renew these leases on reasonable terms;
- The lack of relevant permissions from governmental authorities and of ownership rights to some of our hypermarkets and distribution centers could have a material adverse effect on our business, results of operations, financial condition and prospects;

- Our ownership interests or lease rights in land may be successfully challenged;
- There may be delays and cancellations of construction and renovation projects for our new stores;
- We are and following the Global Offering and the Share Issue will be controlled by our majority shareholder and general director (chief executive officer), Sergey Galitskiy, whose interests could conflict with the interests of other holders of the Ordinary Shares or the GDRs;
- We face the risk of product liability claims and associated adverse publicity;
- We may be negatively affected by changes in customer preferences;
- Our revenues are subject to seasonal and cyclical trends, as well as general economic conditions and the availability of discretionary income;
- We are exposed to certain risks in connection with the substantial use of cash in our operations;
- We may fail to fulfill the terms of our licenses, permits and other authorizations, or fail to renew them on expiry;
- Forced liquidation of our subsidiaries due to insufficient or negative net assets could adversely affect our operations;
- We are subject to anti-monopoly laws enforced by the Federal Antimonopoly Service (the “FAS”), which may result in certain limitations being imposed on our activities;
- We may fail to successfully implement major acquisitions;
- The value of real property we own may decrease;
- Our competitive position and future prospects depend on the expertise and experience of our senior management;
- Our success depends in part on our ability to continue to attract, retain and motivate qualified personnel;
- We depend on a variety of information technology systems (including the Internet);
- A major accident could result in substantial property loss and inability to recover such loss in a timely fashion or at all;
- Our insurance cover may be insufficient;
- Third parties who have registered some classes of registration for the use of the trademark “МАГНИТ” (“MAGNIT” in Cyrillic letters) and “Magnet” (in Latin letters) may seek to enforce such rights against us;
- We could lose our intellectual property rights or become liable for significant costs;
- Our management information systems and internal control systems may be inadequate to support our future growth;
- Our operations are conducted by our subsidiaries, resulting in significant dependency on them for dividends and cash flows;
- Unionization of our workforce could limit our flexibility in managing our workforce and increase our payroll costs and/or lead to labor conflicts;
- Our indebtedness or the enforcement of certain provisions of our financing arrangements could have a material adverse effect on our business;
- Fluctuations in interest rates could materially adversely affect our business, results of operations, financial condition and prospects;
- Salary increases in Russia may reduce our profit margins;
- Consolidation of the food retail industry may have a material adverse effect on our business; and
- Our financial statements may not be reflective of our financial performance due to appreciation of Rouble.

### ***Risks Relating to Russia***

- The reversal of reform policies in Russia, political and governmental instability, economic instability, arbitrary government action, inflation, or restrictive currency regulations could have a material adverse effect on our operations;
- Conflicts among federal, regional and local authorities and other political conflicts could create an uncertain operating environment;
- Incomplete, unreliable or inaccurate official data and statistics could create uncertainty;
- Social instability could lead to labor and social unrest, increased support for renewed centralized authority, nationalism or violence;
- Crime and corruption could create a difficult business climate in Russia;
- Emerging markets such as Russia are subject to greater risks than more developed markets;
- Fluctuations in the global economy may have an adverse effect on Russia's economy and thus our business;
- The physical infrastructure in Russia is in a poor condition;
- The Russian banking system remains underdeveloped and we are only able to conduct banking transactions with a limited number of creditworthy Russian banks;
- Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia;
- Corporate governance standards in Russia are not as developed as those in Western Europe or the United States;
- Regulation of Russian capital markets may provide inadequate protection to holders of Shares and GDRs;
- Shareholder liability under the corporate law of Russia could result in our becoming liable for the obligations of our subsidiaries;
- Lack of independence and inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or you from obtaining effective redress in a court proceeding;
- It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered or to obtain certain approvals, consents or registrations;
- Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor taxpayers;
- Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities with respect to all controlled transactions; and
- Russian legislation may not adequately protect against expropriation and nationalization.

### ***Risks Relating to the Global Offering and the Shares and the GDRs***

- If the Share Issue is not completed, we may not receive the proceeds from such Share Issue and our shareholding structure may differ from what is currently contemplated;
- Because there has been no prior market for the GDRs, the Global Offering may not result in an active or liquid market for the GDRs, and their price may be highly volatile;
- The Shares may be de-listed from MICEX or RTS, the FSFM permission for the GDR program may be revoked, and the GDR facilities may have to be terminated;
- The New Shares will become transferable on the next business day following filing of the Placement Notice with the FSFM, but the failure to duly and timely file the Placement Notice or any other violations of the Russian securities laws could result in the Offering being held invalid, failed or incomplete;
- Investors in the Global Offering will suffer immediate and substantial dilution;
- We do not intend to pay dividends in the foreseeable future, and our ability to pay dividends will depend upon the level of dividends and distributions, if any, received from our operating subsidiaries and other factors;



- Because the Depositary may be considered the beneficial holder of the Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary;
- Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement, as defined below, and the Deed Poll relating to the GDRs and the relevant requirements of Russian law;
- Investors may be unable to repatriate their earnings from distributions made on the GDRs;
- Future sales of Ordinary Shares and GDRs may affect the market price of the Ordinary Shares and the GDRs;
- The value of any dividends or distributions received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Rouble and the US Dollar;
- Following the Global Offering you may not be able to deposit the Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Global Offering;
- The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Shares and the Ordinary Shares represented by the GDRs;
- Holders of the Shares or GDRs may not be able to benefit from double tax treaties; and
- Capital gains from the sale of the Shares or GDRs may be subject to Russian income tax.

#### **Summary of the Global Offering**

The Company has authorized 11,300,000 New Shares to be placed in the Share Issue, including to the Company's existing shareholders as of February 12, 2008, pursuant to each such shareholder's statutory right to subscribe for New Shares *pro rata* to its existing shareholding as of that date. In addition, the Selling Shareholder will sell 4,653,778 Ordinary Shares in the Global Offering. Mr. Sergey Galitskiy is the beneficial owner of the Ordinary Shares held by the Selling Shareholder. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on an if-and-when issued basis on or about April 16, 2008, and Admission is expected to occur on or about April 21, 2008. The date on which the Selling Shareholder will receive proceeds from the sale of Shares in the Global Offering (the "**Share Closing Date**") is expected to be on or about April 30, 2008. Interests of investors investing in the Shares or the GDRs will be diluted to the extent of the difference between the offer price per Share or per GDR and the net tangible book value per Share or per GDR, respectively, following the completion of the Global Offering and the Share Issue.

## Summary Consolidated Financial and Other Information

The table below shows summary consolidated financial information as of and for the years ended December 31, 2005, 2006 and 2007 and has been derived from our Consolidated Financial Statements included elsewhere in this Prospectus. The summary financial information should be read in conjunction with “*Operating and Financial Review*” and our Consolidated Financial Statements included elsewhere in this Prospectus.

Our financial statements have been prepared in accordance with IFRS. Although our consolidated financial position and results of operations are presented in US Dollars, the presentation currency for IFRS purposes, investors in the Shares or the GDRs should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all.

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
<b>Consolidated income statement data</b>			
Revenue	1,577,672	2,505,030	3,676,559
Cost of sales	<u>(1,311,072)</u>	<u>(2,047,997)</u>	<u>(2,946,515)</u>
Gross profit	266,600	457,033	730,044
Selling expenses	(14,519)	(19,938)	(29,488)
General and administrative expenses	(188,223)	(341,383)	(537,353)
Investment income	9	1,322	640
Finance costs	(12,881)	(14,356)	(36,101)
Other income	901	2,127	5,005
Other expenses	<u>(1,857)</u>	<u>(3,340)</u>	<u>(2,631)</u>
Profit before tax	50,030	81,465	130,116
Income tax expense	<u>(12,517)</u>	<u>(23,500)</u>	<u>(32,726)</u>
Profit for the year	<u>37,513</u>	<u>57,965</u>	<u>97,390</u>
Attributable to equity holders of the parent	37,513	57,420	96,549

	<b>As of December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
<b>Consolidated balance sheet data</b>			
Cash and cash equivalents	45,771	89,789	120,959
Total assets	405,114	890,204	1,620,020
Short-term debt (including finance leases and current portion of long-term debt)	77,373	167,135	509,190
Long-term debt (including finance leases and excluding current portion of long-term debt)	82,817	89,346	183,444
Total liabilities	354,916	584,965	1,191,673
Total equity	50,198	305,239	428,347

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
<b>Consolidated cash flow data</b>			
Net cash generated from operating activities	33,624	85,983	242,355
Net cash used in investing activities	(78,654)	(301,552)	(568,698)
Net cash generated from financing activities	72,373	258,712	354,832

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Other financial data</b>			
Gross margin (%) <sup>(1)</sup>	16.9	18.2	19.9
EBITDA (US\$ in thousands) <sup>(2)</sup>	78,018	123,586	219,243
EBITDA margin (%) <sup>(3)</sup>	4.9	4.9	6.0
Net margin (%) <sup>(4)</sup>	2.4	2.3	2.6
Capital expenditures (US\$ in thousands) <sup>(5)</sup>	87,068	314,843	606,478
Net debt to EBITDA ratio <sup>(6)</sup>	1.47	1.35	2.61

	<b>As of or for the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Operational data</b>			
Total selling space, excluding hypermarkets, as of December 31 (in thousands of square meters) <sup>(7)</sup>	383	523	640
Number of convenience stores as of December 31	1,500	1,893	2,194
Number of hypermarkets as of December 31	—	—	3
Average selling space of convenience stores as of December 31 (square meters)	255	276	292
Number of tickets, excluding hypermarkets (in millions) <sup>(8)</sup>	469.3	640.1	764.8
Average ticket, excluding hypermarkets (US\$) <sup>(9)</sup>	3.31	3.84	4.76
Number of employees as of December 31	31,593	44,295	58,978
Like for like sales growth in Roubles (%) <sup>(10)</sup>	n/a	13.2	13.9

(1) Gross margin consists of gross profit as a percentage of revenue.

(2) EBITDA consists of profit for the year plus net finance costs (equal to finance costs minus investment income), income tax expense and depreciation and amortization. EBITDA is not a measurement of performance or liquidity under IFRS or US GAAP and should not be considered by investors in isolation or as a substitute for a measure of profit, or as an indicator of our operating performance or cash flows from operating activities as determined in accordance with IFRS or US GAAP. We have presented this supplemental measure because it is used by us in managing our business. In addition, we believe that EBITDA is commonly reported by comparable businesses and used by investors in comparing the performance of businesses on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred). EBITDA may not be comparable to similarly titled measures disclosed by other companies and investors should not use this non-GAAP measure as a substitute for the figures provided in our Consolidated Financial Statements.

The following table presents a reconciliation of EBITDA to profit for the year for the periods indicated:

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
Profit for the year	37,513	57,965	97,390
Net finance costs (finance costs minus investment income)	12,872	13,034	35,461
Income tax expense	12,517	23,500	32,726
Depreciation	15,056	28,949	53,102
Amortization	60	138	564
EBITDA	<u>78,018</u>	<u>123,586</u>	<u>219,243</u>

(3) EBITDA margin represents EBITDA as a percentage of revenue.

(4) Net margin consists of profit for the year as a percentage of revenue.

(5) Capital expenditures are calculated as additions to property, plant and equipment as presented in our consolidated cash flow statements.

(6) Net debt is calculated as the sum of short-term and long-term loans (including obligations under finance leases) minus cash and cash equivalents.

(7) Total selling space of convenience stores includes areas leased to third parties. Total selling space of our three hypermarkets as of December 31, 2007 was 17,685 square meters, of which areas equal to 6,095 square meters were designated as selling space to be leased to third parties.

(8) Number of tickets is the aggregate number of separate purchases that are made at all of our stores during the year.

(9) Average ticket is calculated as described in "Presentation of Financial and Other Information—Presentation of Operating Information."

(10) Like for like sales growth is calculated as described in "Presentation of Financial and Other Information—Presentation of Operating Information."

## RISK FACTORS

*Any investment in the Shares or the GDRs is subject to a number of risks. Prospective investors should carefully consider the risks described below, together with all other information contained in this Prospectus, before deciding whether to invest in the Shares or the GDRs. The occurrence of any of the following risks could materially adversely affect our business, results of operations, financial condition and prospects. As a result, the trading price of the Shares or the GDRs could decline and investors could lose all or part of their investment. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also have a material adverse effect on our business, results of operations, financial condition and prospects. This section describes the risks and uncertainties that we believe are material, but these risks and uncertainties may not be the only ones that we face. Additional risks and uncertainties, including those that we currently do not know about or deem to be immaterial, may also result in decreased revenues, assets and cash inflows, increased expenses, liabilities or cash outflows, or other events that could result in a decline in the value of the Shares and the GDRs.*

### **Risks Relating to Our Business and Industry**

***The markets in which we operate are highly competitive and competitive pressures may have a material adverse effect on our business and result in reductions in our market share, margins and profitability***

Competition in the Russian food retail market is intense. We believe that with respect to our convenience store operations our principal competitors currently are Pyaterochka, Dixy and Kopeyka. In the hypermarket segment we consider Auchan, Perekrestok, Karusel, Lenta and O'Key to be our current principal competitors. We also compete with regional and local food retail chains, independent food stores, specialty food stores, open-air markets, general merchandisers and discount retailers and small retail stores. If any major Western discounter or convenience store chain enters the Russian discount food retail market, competition in this market segment will become even more intense. Our competitors may have greater financial, distribution, technical, personnel, purchasing and marketing resources, any of which would provide them with a competitive advantage. Food retail chains generally compete on the basis of location, prices, the quality of products and service, product variety and store condition. Our ability to compete depends on our ability to maintain and remodel existing stores and develop new stores in advantageous locations, as well as to offer products sold at our stores at competitive prices. Our margins may be significantly reduced if, for example, we are forced to engage in aggressive price competition with our principal competitors. Accordingly, competitive pressures could have a material adverse effect on our business, results of operations, financial condition and prospects.

***We may be unable to effectively manage the rapid expansion of our business, including our hypermarket operations, which could have a material adverse effect on our business, results of operations, financial condition and prospects***

Our business has expanded rapidly, and we expect that it will continue to do so for the foreseeable future, particularly as we further expand our hypermarket operations. A key element in our strategy is to increase the number of our stores organically through the rollout of new convenience stores and hypermarkets in the European part of Russia. The successful implementation of our expansion strategy depends on our ability to locate and lease or acquire appropriate premises for our stores or land plots for the construction of new stores on commercially reasonable terms, construct and open new hypermarkets and convenience stores in a timely manner, bring new stores up to our standards, employ, train and retain additional store and supervisory personnel and integrate the new stores into our existing operations on a profitable basis. Our expansion plans also depend on, among other things, economic conditions, the availability of financing and the absence of adverse changes in the regulatory environment. There can be no assurance that we will achieve our planned growth with respect to our convenience store and hypermarket operations because, among other things, our operational, administrative and financial resources may be inadequate to sustain such growth. There can also be no assurance that such growth, even if achieved, will not adversely affect the efficiency of our operations or the quality of our customer service or that new stores will operate profitably.

Our expansion into the hypermarket business, a market segment in which we have little prior experience, presents a particularly difficult challenge. While we have a long track record of successfully adding large numbers of new convenience stores to our existing operations, our experience with respect to hypermarkets is much more limited. Our first hypermarket opened only recently, in October 2007, and accordingly many elements of our strategy with respect to hypermarket operations have not yet been fully tested. In addition, our senior managers have relatively limited experience in managing hypermarket

operations and there can be no assurance that all or any of the recently hired hypermarket specialists, whom we brought in to manage our hypermarket operations, will be effective in such roles. Moreover, construction of hypermarkets is much more capital intensive relative to “greenfield” convenience store construction projects and takes a significantly longer time to complete. Based on our experience with the hypermarkets we have already opened prior to March 15, 2008, it has taken us up to 18 months (and slightly more than 15 months on average) from the date of the decision to buy or lease a land plot for a hypermarket to the opening date for such hypermarket. Since we have already made large capital expenditures on our existing hypermarkets and hypermarkets that are currently under construction and intend to make additional large capital expenditures on expanding our hypermarket operations in the near future, any inability to effectively manage growth of our hypermarket operations and achieve planned levels of profitability would be particularly detrimental for our business, results of operations, financial condition and prospects.

In addition, since we already have convenience stores in some of the cities and towns in which we have opened or plan to open new hypermarkets, the opening of a new hypermarket in such locations may have an adverse impact on the operations of our existing convenience stores.

***Failure to comply with existing governmental regulations, or increased governmental regulation of our operations, could result in the closure of certain of our stores, the imposition of substantial penalties or additional compliance costs***

Our operations and properties are subject to regulation by various government entities and agencies and we have to comply with various laws, regulations and rules with respect to, among other things, quality standards, health and safety, sanitary rules and consumer protection. This includes obtaining and renewing various permits concerning, for example, health and safety, packaging, labeling, environmental standards and distribution standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of our operations, the imposition of penalties or the closure of our stores.

In addition, regulatory authorities may also seek to introduce new restrictions or impose new obligations on the food retail industry that could result in additional compliance costs and have an adverse effect on our operations. For example, two draft laws aimed at regulating the retail trade were prepared in 2007: the draft law “On Retail Trade” (the “**Draft Law on Retail Trade**”) prepared by a deputy of the State Duma and the draft law “On Basic Principles of State Regulation of Trading Activities in the Russian Federation” (the “**Draft Law on Trading Activities**”) prepared by the Ministry of Economic Development and Trade of the Russian Federation jointly with the FAS and the Ministry of Agriculture of the Russian Federation. Both draft laws contain provisions allowing state authorities to fix prices on certain goods under certain circumstances and set forth various thresholds for determining a dominant position of a company in a retail trade market. In particular, the amendments proposed by the FAS provide that a company that has a share exceeding 15% in the aggregate volume of food retail sales within the boundaries of a certain geographic area shall be treated as having a dominant position in that area. Furthermore, a company’s share in the aggregate volume of both food and non-food retail sales within the boundaries of a certain geographic area must not exceed 35%. All companies that have a dominant position in a particular area are subject to more stringent regulation by the FAS, which may impose additional limitations and requirements with respect to their business activities in those areas in which they have a dominant position. In addition, the Ministry of Agriculture has proposed to introduce certain constraints on food retailers’ discretion in setting prices for agricultural products and to give authority to the federal government to limit retail margins on transactions involving such products. Should the Draft Law on Trading Activities be adopted with the amendments proposed by the FAS and the Ministry of Agriculture or the Draft Law on Retail Trade be adopted, such new law will impose additional obligations on us, which would be difficult to comply with, and would result in adverse consequences for our operations.

Any failure to comply with existing or new laws, regulations and rules may result in the imposition of sanctions, including civil and administrative penalties applicable to the relevant member of the Group and criminal and administrative penalties applicable to our managers. In certain cases, we may be required to cease certain of our business activities and/or to remedy past infringements. For example, in 2007, following inspections by the controlling authorities, a number of our convenience stores were closed for up to 30 days due to violations of sanitary and epidemiological regulations, fire safety rules, environmental and consumer rights legislation. Any such decisions, requirements or sanctions may restrict our ability to

conduct our operations or to do so profitably and, as a result, could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Increases in prices charged by food producers may have a material adverse effect on our profitability if we are unable to pass on such increases to customers***

The cost of basic agricultural commodities has increased globally in 2007, including in the Russian Federation. In Russia, the increase in prices charged by food producers was driven primarily by strong domestic demand, as well as by the global increases in prices for commodities. This trend may continue in the future, which would require us to pass on all or a large portion of price increases by our suppliers to our customers to be able to maintain our gross profit margins. However, we may not be able to significantly increase the prices of products sold in our stores to offset the price increases by our suppliers if our main competitors choose not to implement such price increases. As competition in the Russian food retail market becomes increasingly intense, unilateral price increases may lead to declines in sales, loss of customer traffic, loss of market share and other adverse consequences and, accordingly, we may be significantly constrained in our pricing policy by the actions of our competitors. In addition, federal or regional authorities may impose regulatory constraints on the ability of food retail operators to increase their prices. In October 2007, federal authorities took steps to limit food price inflation by agreeing with around 20 leading food producers and food retailers (but not including us) with respect to freezing prices on some food products from October 15, 2007 to January 31, 2008, which period was subsequently extended by the government to May 1, 2008. Certain regional authorities contemplated similar plans. There can be no assurance that federal or regional authorities would not attempt to introduce more comprehensive measures limiting the ability of food retailers to increase prices on products they sell or regulating their profit margins. If any such measures are implemented, they could have a material adverse effect on our business, results of operations, financial condition and prospects.

***We may require additional capital in the future, which may not be available or may only be available on unfavorable terms***

Our business requires significant levels of capital to finance the opening of new stores and the purchasing of product inventory that is not financed by trade creditors. In addition, in order to continue expanding our business, including through possible acquisitions, and to the extent that our own funds are insufficient, we may need to raise additional funds through equity or debt financings. If we cannot obtain adequate capital on favorable terms or at all, this could curtail our growth, which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects. In addition, issuance of additional equity could dilute the interests of holders of the GDRs and Shares.

***We depend on our ability to lease or acquire appropriate real estate on commercially acceptable terms, to protect our real property rights, to build new stores on newly acquired sites and to develop new stores on newly acquired premises***

Our ability to open new stores is heavily dependent on identifying and leasing and/or purchasing land plots and/or premises that are suitable for our needs on commercially reasonable terms. The market for property in metropolitan areas in Russia is highly competitive and, in recent years, competition for, and therefore the cost of, high-quality land plots and premises have increased significantly. If we fail to identify and secure a sufficient number of land plots and/or premises for any reason, including competition from third parties seeking similar land plots and premises, our anticipated growth will be adversely affected.

Even after we procure rights to suitable land plots and premises, we are required to obtain approvals from various regional or municipal authorities in order to undertake construction and to secure our rights to the use of stores or to refit or refurbish those stores. Obtaining approvals may require extensive documentation and we may not be able to accurately predict how long it will take to obtain such approvals. Consequently, there can be no assurance that we will successfully identify, and lease and/or purchase suitable land plots and/or premises on acceptable terms or at all, and failure to do so would have a material adverse effect on our business, results of operations, financial condition and prospects.

***We lease a large proportion of our stores and there is no assurance that we will be able to renew these leases on reasonable terms***

As of March 15, 2008, we leased the premises of 1,653 of our convenience stores, as well as some of our office space and one of our distribution centers. We also operate one of our distribution centers on the basis of sublease arrangements with a third party contractor, which require a consent of a landlord. There

can be no assurance that we will continue to be able to renew our store, office and distribution center leases/subleases on acceptable terms or at all as they expire. Also, there can be no assurance that we will continue to be able to receive consents from landlords or renegotiate relevant terms of sublease agreements in order to renew our sublease arrangements with respect to one of our distribution centers. For example, in 2007, leases for 38 convenience stores were not renewed or were terminated due to disagreements with the landlords. Any inability to renew our leases as they expire, or lease other favorable locations on acceptable terms, or termination of our existing leases, or revision of the terms of leases to our detriment could have a material adverse effect on our business, results of operations, financial condition and prospects.

***The lack of relevant permissions from governmental authorities and of ownership rights to some of our hypermarkets and distribution centers could have a material adverse effect on our business, results of operations, financial condition and prospects***

As of March 15, 2008, we owned one out of five hypermarkets which we operated and were in the process of receiving title to the remaining four hypermarkets. As of that date, we also operated eight distribution centers, with seven being either owned or leased/subleased from third parties and with the title to the remaining one expected to be received in the near to medium term. Our four hypermarkets and one distribution center, to which we currently have no title, were put into operation without all the relevant permissions from governmental authorities required under Russian law. Until we receive the necessary permissions with respect to our hypermarkets and distribution centers from governmental authorities, we are not able to acquire title to the respective premises and we may be exposed to fines in the amount of up to RUB 20 thousand and to be forced to suspend operation of our hypermarkets and distribution centers for violating Russian law requirements, which prohibit the operation of constructed premises without the relevant permissions. Any such suspension of our operations could have an adverse effect on our business, results of operations, financial condition and prospects.

***Our ownership interests or lease rights in land may be challenged and such challenges if successful could have a material adverse effect on our business, results of operations, financial condition and prospects***

In connection with our business we acquire ownership or lease interests in land plots and buildings with a view to construction of new stores or refurbishment of existing buildings for our stores, using third party contractors. Russian land and property legislation is complex and often ambiguous and may contain contradictory provisions at the federal, regional and local levels. In particular, it is not always clear which state bodies are authorized to enter into land leases with respect to particular land plots. As a result, our ownership of and/or lease rights to land and buildings may be challenged by government authorities, counterparties or third parties.

Under Russian law, transactions involving real estate may be challenged on many grounds, including breach of internal corporate approval requirements by a counterparty, failure to register the transfer of title in the unified state register or fraudulent actions by a seller or assignor of rights to real estate. As a result, defects in previous transactions with respect to real estate and over which we had no control may lead to the invalidation of such transactions, which may affect our title or lease rights to such real estate.

Further, Russian law does not require certain encumbrances over real estate (including leases of less than one year and free of charge use agreements) to be registered in the unified state register in order to constitute a valid encumbrance on the property. Accordingly, notwithstanding any registration we may conduct, third parties may register or claim the existence of encumbrances (of which we had no prior knowledge) over our real estate whether owned or leased. Losses of title or lease rights to our properties may have a material adverse effect on our business, results of operations, financial condition and prospects.

***Construction and renovation projects for our new stores may be delayed or cancelled, and we may not be able to complete construction of our new stores on time to meet the requirements of our expansion plan***

In the Russian Federation, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are difficult to comply with fully in practice. Obtaining a construction permit for a new hypermarket may take up to one year. Therefore, construction and renovation projects for our new stores may be delayed or cancelled, which could adversely affect our ability to achieve our planned growth with respect to our convenience store and hypermarket operations.

Moreover, in both the markets in which we currently operate and our target markets, there is a shortage of skilled contractors able to build new stores on time and in compliance with our standardized

requirements. As a result, we may not be able to meet our target expansion plans, and this could have a material adverse effect on our business, results of operations, financial condition and prospects.

Any inability to find suitably qualified and skilled contractors could result in some new stores failing to be built in compliance with applicable health and safety regulations. Such failure could lead to the imposition of sanctions, including civil and administrative penalties applicable to the relevant member of the Group and criminal and administrative penalties applicable to our managers. For example, in July 2001, an accident occurred during the renovation of a building leased by the Rostov-on-Don branch of Tander that caused the deaths of two persons and caused injuries to 11 people. In connection with this accident, in 2002, our senior manager, Mr. Eduard Smetanin, together with two managers of the construction company, was sentenced to five years' imprisonment in a minimum security correctional facility for the violation of building safety rules and for causing death and serious injury through negligence. He was also prohibited from holding any managerial positions related to construction for two years from the date of his release. Mr. Smetanin was released on parole in December 2003.

In addition, the imposition of such sanctions could give rise to negative publicity and press speculation about our actions, which could therefore have a material adverse effect on our reputation and disrupt our ability to effectively conduct our business. This could have a material adverse effect on our business, results of operations, financial condition and prospects.

***We are and following the Global Offering and the Share Issue will be controlled by our general director (chief executive officer), Sergey Galitskiy, who will continue to beneficially own the majority of our share capital after the Global Offering and the Share Issue and whose interests could conflict with the interests of other holders of the Ordinary Shares or the GDRs***

Following the completion of the Global Offering and the Share Issue, Mr. Galitskiy, who is also our general director (chief executive officer), will beneficially own 50.02% of the share capital in the Company assuming that all New Shares subscribed for by our existing shareholders in the exercise of their pre-emptive rights are purchased and paid for. Accordingly, he is and will continue to be in a position to control the outcome of most matters submitted to general shareholders' meetings for a vote, including, but not limited to, the election or removal of directors, the declaration of dividends and other policy decisions. Additionally, Mr. Galitskiy is and will continue to be able to control or significantly influence the outcome of any vote on any proposed amendment to our charter, merger proposal, proposed substantial sale of assets or other major corporate transactions. In addition, Mr. Galitskiy is and will continue to be able to prevent or cause a change of control of us and discourage bids for our shares at a premium over the market price. Any such control or influence by Mr. Galitskiy could be increased if he were to join with other shareholders of the Company. Mr. Galitskiy's interests could conflict with those of other holders of the Shares and the GDRs.

***We face the risk of product liability claims and associated adverse publicity***

The packaging, marketing, distribution and sale of food and other products purchased by us from others, as well as production of products under our private labels, entail an inherent risk of product liability claims, product recalls and associated adverse publicity. Such products may contain contaminants that, in certain cases, may result in illness, injury or death. Moreover, even an inadvertent shipment of contaminated products may lead to product liability claims asserted against us and/or require product recalls. There can be no assurance that such claims will not be asserted against us in the future, or that such recalls will not be necessary. As we do not maintain product liability or third party liability insurance covering product liability claims, product liability claims relating to defective products, if successful, could have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, we have developed a range of private label products and we intend to increase the total number of private label SKUs sold in our stores in the near future. Any product liability claim brought against us regarding our private label products, if successful, could have a material adverse effect on our ability to market our private label products successfully and therefore on our brand, business, results of operations, financial condition and prospects.

In addition, even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding any assertion that the products we sell (and particularly our private label products) caused illness or injury could have a material adverse effect on our reputation with existing and potential customers, and on our brand, business, results of operations, financial condition and prospects.



***Changes in customer preferences may have a material adverse effect on our sales***

The Russian food retail market is subject to changing customer trends, demands and preferences. We operate our business primarily in those segments of the Russian food retail market that target customers with low or medium incomes. The disposable income of Russian consumers has been increasing in recent years. If further increases of the level of disposable consumer income in Russia occur over time, either generally or in certain federal districts, particularly in the Southern Federal District where we derive a significant portion of our total revenue, we may not be able to adjust the assortment of products in our stores quickly enough to reflect changes in the preferences of such customers. Some of these customers may prefer different formats of stores, such as supermarkets. As a result of such changes in customer preferences, the number of customers shopping in our stores may decrease (or increase more slowly than in the past) or average ticket at our convenience stores may decrease (or increase more slowly than in the past), which could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our revenues are subject to seasonal and cyclical trends, as well as general economic conditions and the availability of discretionary income***

Consumer spending is significantly influenced by general economic conditions and the availability of disposable income. In periods of economic uncertainty, customers tend to reduce spending both by reducing the volume of their purchases and by shifting their purchasing pattern towards less expensive products. Reduced consumer spending could reduce our revenues and profitability. In addition, other factors outside our control may affect our results of operations. For example, seasonality of market demand for various products could cause significant changes in our performance throughout the year. We experience some seasonal fluctuations in our operations, such as a significant increase in sales during December, prior to the New Year period, as well as a less significant increase in sales in July and August as many holiday-makers travel to the area around the Black Sea and some other areas in the south of Russia where many of our convenience stores are located. Purchases of meat products tend to be lower in the spring as some of our customers observe periods of religious fasting, while the demand for wheat-based products generally increases during this period. Further, poor trading performance during the New Year season could adversely affect our full-year results and leave us with substantial excess stock that is difficult to liquidate. Any inability to respond to seasonal and cyclical variations in demand could have a material adverse effect on our business, results of operations, financial condition and prospects.

***We are exposed to certain risks in connection with the substantial use of cash in our operations***

Due to the nature of the retail business and current state of development of the Russian banking sector, we process a large volume of cash transactions in our operations. Customers at stores must pay for their purchases in cash. Therefore, we are exposed to the risk of cash shortages, petty theft and robbery, which, if substantial in the aggregate, could adversely affect our business, results of operations, financial condition and prospects.

***We may fail to fulfill the terms of our licenses, permits and other authorizations, or fail to renew them on expiry***

We are required to maintain licenses, permits and other authorizations, including licenses relating to the sale and warehousing of alcohol, licenses for the sale of pharmaceutical products and in connection with certain construction activities. We are also required to obtain and renew various permits concerning, for example, health and safety, packaging, labeling, environmental standards and distribution standards. Our licenses, permits and other authorizations contain various requirements that must be complied with in order to keep such licenses, permits and other authorizations valid. If we fail to meet the terms of our licenses, permits or other authorizations, then licenses, permits and other authorizations necessary for our operations may be suspended or terminated, leading to the temporary or potentially permanent closing of our stores covered by the relevant licenses, permits or other authorizations, temporary or potentially permanent suspension of construction activities or other adverse consequences. For instance, in 2007, local courts annulled retail licenses to sell alcohol of one of our stores in Krasnodar and of another store in the Moscow region upon claims of regional authorities.

In addition, we cannot be certain that any given license, permit or authorization will be deemed sufficient by the relevant governmental authorities to fully cover our current activities conducted in reliance on such license, permit or authorization.

Any or all of these factors may adversely affect our ability to obtain or renew necessary licenses, permits and authorizations. If we are unable to obtain or renew them or are only able to do so on unfavorable terms, this could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Forced liquidation of our subsidiaries due to insufficient or negative net assets could adversely affect our operations***

In accordance with the Russian legislation, in the event that a company's net assets at the end of its second or any subsequent financial year, as stated in its annual balance sheet prepared under Russian Accounting Standards ("RAS"), fall below its share capital, the company must decrease its share capital to such level. In addition, if a company's net assets at the end of its second or any subsequent financial year, as stated in the annual balance sheet prepared under RAS, fall below the minimum share capital required by law, the company must voluntarily liquidate. If the company fails to comply with either of the requirements stated above within a "reasonable period", the company's creditors may accelerate their claims or demand early performance of the company's obligations to them and demand payment of damages, and governmental authorities may seek the involuntary liquidation of the company. Courts have on occasion ordered the involuntary liquidation of a company for having net assets less than the minimum share capital required by law, even if the company had continued to fulfill its obligations and had net assets in excess of the minimum amount at the time of liquidation. Our subsidiaries LLC BestTorg, LLC Tander-Magnit, LLC Selta and LLC Tandem have in the past had net assets less than their share capital or less than the minimum share capital required by law and our subsidiaries LLC Magnit-Nizhniy Novgorod, LLC Alkotrading, LLC Project-M and LLC Magnit Finance as at December 31, 2007 had net assets less than their share capital or less than the minimum share capital required by law. Our subsidiaries have not taken any steps to remedy this situation and have not filed for voluntary liquidation because we believe that, as long as a subsidiary continues to fulfill its obligations, the risk of its liquidation or creditors' claims for early performance of obligations is minimal. However, if an involuntary liquidation or claims for early performance of obligations were to occur, our business, results of operations, financial condition and prospects would be adversely affected.

***We are subject to anti-monopoly laws enforced by the FAS, which may result in certain limitations being imposed on our activities***

Our operations are subject to anti-monopoly laws enforced by the FAS, which may impose certain limitations on our activities. For example, in January 2008, the Tatarstan division of the FAS found that a number of retail companies, including us, entered into cartel-like arrangements with each other and imposed particularly unfavorable conditions on the suppliers of goods and requested that we cease any such practices. In particular, the Tatarstan division of the FAS requested that we (i) reduce deferral of payments for goods to no more than 15 days; (ii) exclude clauses regarding entry bonuses, presence bonuses and new-item entry bonuses from our standard agreements with suppliers; (iii) exclude clauses regarding ancillary services such as promotion of goods and collection of statistical data on turnover of goods from our standard agreements with suppliers; (iv) allow suppliers to determine the range of services we may provide to them; and (v) reduce the fines and penalties that we impose on our suppliers. We appealed the FAS order in the arbitrazh court, and the hearing has been scheduled for April 28, 2008. In another case, in February 2008, the Orel division of the FAS found that Tander, our main operating company, had entered into a supply agreement that had led to, or might lead to, the restriction of competition. The Orel division of the FAS has requested us to change by April 1, 2008 the term of an agreement with a supplier relating to the reserving of goods by that supplier for Magnit stores that, in the FAS's view, violated the Russian anti-monopoly law. While the deadline for implementing this change has passed, we are continuing negotiations with this supplier in Orel in relation to the relevant term of the supply agreement. In addition, on March 5, 2008, the FAS division for Moscow and Moscow region initiated review proceedings with respect to the claim of one of our suppliers alleging that we have imposed unfavourable terms of the supply contract on it. The FAS has not yet issued any decision on the case. If our activities are found to be in violation of anti-monopoly legislation, we could be subject to penalties, or requested to change our business operations, including changing our standard agreement with suppliers, in a manner that increases our costs or reduces our profit margin and our revenue.

***We may fail to successfully implement major acquisitions, which could have a material adverse effect on our business, results of operations, financial condition and prospects***

We may pursue growth through acquisitions of businesses. Future acquisitions and their subsequent integration into our operations would, if pursued, require significant attention from management, in

particular to ensure that the acquisitions do not disrupt relationships with suppliers and customers. The diversion of our management's attention and any difficulties encountered in any integration process could have a material adverse effect on our ability to manage our business. Future acquisitions could expose us to potential risks, including risks associated with the integration of new operations, services and personnel, unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions and potential loss of, or harm to, relationships with employees and external parties as a result of the integration of new businesses. Future acquisitions could also require us to incur debt or issue debt or equity securities, which may dilute the interest of existing shareholders. Failure to successfully implement acquisitions could have a material adverse effect on our business, results of operations, financial condition and prospects.

***The value of real property we own may decrease, reducing our total assets***

We build or acquire premises for a large number of new stores every year. The prices of these properties may decrease for various reasons, including:

- changes in the competitive environment;
- changes in the attractiveness of real property as an investment asset either in Russia as a whole or in certain regional markets in which our real property is located due to changes in country-related or region-related risks; and
- fluctuations in demand for commercial real property.

As a result of any unfavorable changes in the real property market, the value of our real property may decrease, which would have a negative impact on the total assets. Sales of real property that has decreased in value for a price lower than the original purchase price would result in a loss and, as a result, may have a negative impact on our financial condition.

***Our competitive position and future prospects depend on the expertise and experience of our senior management***

Our business is dependent on retaining the services of members of our senior management team as the business develops. While we have entered into employment contracts with such persons, the retention of their services cannot be guaranteed. For example, under Russian law, our senior management may resign by giving one month's and, in some cases, two weeks' notice. We are not insured against any financial loss that may be incurred in case of resignation or dismissal of our senior managers. Our business substantially depends on the service of Mr. Sergey Galitskiy (our general director (chief executive officer)) or Mr. Vladimir Gordeychuk (second deputy to our general director (chief executive officer) and the general director (chief executive officer) of Tander) and the loss of their services could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our success depends in part on our ability to continue to attract, retain and motivate qualified personnel***

Our success depends, in part, on our ability to continue to attract, retain and motivate qualified personnel. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, particularly skilled managers, lawyers, accounting personnel and information technology personnel. Failure to manage our personnel needs successfully could have a material adverse effect on our business, results of operations, financial condition and prospects.

***We depend on a variety of information technology systems (including the Internet)***

We depend on a variety of systems for our operations, including point-of-sale, distribution, inventory management, order processing, stock replenishment, customer relationship management, management reporting and accounting systems. Failures or significant disruptions to our information technology systems could prevent us from making sales, placing orders, managing inventory, shipping products and otherwise conducting our operations efficiently. We also rely on the Internet for information sharing among our stores, regional offices and our head office. The Internet generally, and individual websites in particular, have experienced a number of disruptions and slowdowns, some of which have been caused by organized attacks or security breakdowns. Were we to experience a significant security breakdown or other disruption to our information technology systems, sensitive information could be compromised and our operations could be disrupted, which could harm our relationship with our suppliers or customers, or otherwise have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, our ability to operate our business depends on our ability to protect the information technology systems that we operate from the intrusion of third parties who may attempt to enter our systems through the Internet or otherwise. Third parties may attempt to gain access to our systems and we cannot be certain that we will be able to protect our systems from such attacks. If such attacks occur, some of the problems we may encounter include theft or destruction of our data, including commercial, financial and product information. In addition, disgruntled employees may cause similar damage to, or take similar actions with respect to, our information technology systems to which they have authorized or unauthorized access. If such an attack occurs or damage is inflicted, it could have a material adverse effect on our business, results of operations, financial condition and prospects.

***A major accident could result in substantial property loss and inability to recover such loss in a timely fashion or at all***

If we experienced a major accident at one or several of our core properties or facilities (for example, our head office in Krasnodar, a distribution center or a hypermarket), we could experience substantial property loss and might not be able to rebuild or restore operations in a timely fashion. We do not maintain insurance or separate funds or otherwise set aside reserves for these types of events. Any such accident could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our insurance may be insufficient***

We do not carry insurance for risks such as business interruption, product liability, fire (other than for pledged merchandise) or loss of key management personnel, and do not insure our real estate, distribution centers, stores or inventories (with limited exceptions). We also do not maintain separate funds or otherwise set aside reserves to cover losses or third party claims. Thus, if an uninsured event were to occur, we could experience significant disruption in our operations, suffer significant losses and/or be required to make significant payments for which we would not be compensated, which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Third parties who have registered some classes of registration for the use of the trademark “МАГНИТ” (“MAGNIT” in Cyrillic letters) and “Magnet” (in Latin letters) may seek to enforce such rights against us***

We hold our trademark “Magnit” (in Cyrillic letters) for several classes of the International Classification of Goods and Services, such as a range of food and other products as well as for shipping and packaging of goods. There is no unified view on the classification of retail services in the context of trademark registrations and we are not aware of any legal precedents or publicly available official clarifications of the Russian courts. Accordingly, conflicts between registrations may arise. In particular, we may be subject to claims from holders of other similar trademarks. Further, we may not be able to prevent the use by third parties of trademarks similar to our own registered trademarks, such as the use of a similar trademark on products of inferior quality, which may adversely affect customer perceptions of us. In addition, third parties have obtained protection for some trademarks containing the words “Magnit” (in Cyrillic letters) and “Magnet” (in Latin letters), some of which are registered for classifications that may be viewed as covering retail services. Accordingly, such third parties may bring claims against us for infringement of their rights resulting from the use of the “Magnit” trademark in our stores and we may engage in litigation in order to defend our use of the relevant trademark or to determine the validity and scope of our rights and the rights of others. Any litigation could result in substantial costs and a diversion of management and other resources, either of which could have a material adverse effect on our brand, business, results of operations, financial condition and prospects. Such litigation could also result in us being prevented from using the word “Magnit” or “Magnet” in our retail activities in the future, which would require us to re-brand our chain of stores and to incur other related expenditure, such as additional marketing expenses to increase the recognition of the new brand name, and may require us to pay compensation for the relevant period of use, which could have a material adverse effect on our brand, business, results of operations, financial condition and prospects.

***If we fail adequately to protect our intellectual property rights, we could lose our intellectual property rights or become liable for significant costs***

Russia generally offers less intellectual property protection than many developed countries in Europe or North America. If we are unable to protect our existing proprietary rights (such as trademarks, software developed in-house, products or know-how) against infringement or misappropriation, it could materially

harm our financial results and the ability to develop our business. In addition, we may need to engage in litigation in order to enforce our intellectual property rights in the future or to determine the validity and scope of our rights and the rights of others. Any litigation could result in substantial costs and diversion of management and other resources, either of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, as we are expanding our operations, including, in particular, hypermarket operations, this expansion would require us to obtain additional intellectual property, such as trademarks with respect to a large number of new food and non-food private label products to be sold in our hypermarkets or new customized software. We may not be successful in our efforts to obtain protection for our newly developed intellectual property. Failure to protect such intellectual property rights can give rise to a number of negative consequences, such as an inability to use our trademarks in connection with certain private label products. In addition, there can be no assurance that conflicts will not emerge between us on one hand and employees, outside specialists or other businesses on the other, in connection with the joint development of trademarks, software, products or know-how and the sharing of the right to use such trademarks, software, products or know-how.

***Our management information systems and internal control systems may be inadequate to support our future growth***

Our management information systems (including financial reporting) and internal control systems are less developed in certain respects than those of similar businesses in more developed markets and may not provide us with as much or as accurate information as those in more developed markets. For example, we lack internal policies on accounting treatment of fixed assets, the process of revenue recognition, purchasing process and control over finished products. Also, we may encounter difficulties in the ongoing process of implementing and enhancing management information systems and internal control systems. Our inability to maintain adequate management information systems (including financial reporting) and internal control systems could have a material adverse effect on our business, results of operations, financial condition and prospects. Notwithstanding the above, we believe that our financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

***Our operations are conducted by our subsidiaries, resulting in significant dependency on them for dividends and cash flows***

We are a holding company. A significant part of our assets are the equity interests that we hold in our operating subsidiaries throughout Russia. As a result, our financial condition depends on the financial condition of our subsidiaries. We are dependent upon dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations, including the payment of dividends on our shares and the payment of principal and interest on our outstanding debt. There can be no assurance that we will receive sufficient funds from our subsidiaries to meet our financial obligations, or that we will be able to maintain control over our subsidiaries. Due to our holding company structure, any claim against the Company (including a claim by the Company's shareholders upon liquidation) will be effectively subordinated to claims against the Company's subsidiaries. In addition, we could be liable for the debts of our effective subsidiaries in certain cases. The occurrence of any or all of the foregoing could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Unionization of our workforce could limit our flexibility in managing our workforce and increase our payroll costs and/or lead to labor conflicts***

We do not believe that any of our employees belong to any trade unions. If a substantial part of our workforce were to become members of trade unions, this could limit our flexibility in managing our workforce and lead to a substantial increase in our payroll costs and/or labor conflicts, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our indebtedness or the enforcement of certain provisions of our financing arrangements could have a material adverse effect on our business***

We owe amounts to employees, suppliers, banks, other financial institutions and bondholders, as well as for taxes payable. In order to secure some of these financings, we have pledged inventory, equipment and vehicles, and provided guarantees and suretyships.

Among other things, our indebtedness could potentially (a) limit our ability to obtain additional financing; (b) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (c) place us at a competitive disadvantage relative to our competitors with less indebtedness; (d) lead to a partial or complete loss of control over some of our inventory; (e) render us more vulnerable to general adverse economic and market conditions; or (f) require us to dedicate substantially all or a significant portion of our cash flow to service our debt.

Our ability to make payments on our debt depends upon our ability to maintain our operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which we cannot control. If our cash flow from operating activities is insufficient to service our debt, we could be forced to take certain actions, including delaying or reducing capital or other expenditure in an attempt to restructure or refinance our debt; selling our assets or operations; or seeking additional equity capital. We might be unable to take any of these actions on favorable terms, in a timely manner or at all. Furthermore, such actions might not be sufficient to allow us to service our debt obligations in full and, in any event, could have a material adverse effect on our business, results of operations, financial condition and prospects. Our inability to service our debt through internally generated cash flow or other sources of liquidity would put us in default of our obligations to our creditors, which could result in a material adverse effect on our business, results of operations, financial condition and prospects, and result in the loss of your entire investment in the Shares or the GDRs.

In addition, bankruptcy or liquidation of certain of our subsidiaries could trigger adverse consequences under certain of our loan agreements, which could have a material adverse effect on our business, results of operations, financial condition and prospects. Further, some of our loan agreements provide the relevant bank with a general right to demand the early repayment of the loan where circumstances arise which, in the reasonable opinion of the bank, may prevent the relevant member of the Group from meeting its payment obligations in full, or in a timely manner.

***Fluctuations in interest rates could materially adversely affect our business, results of operations, financial condition and prospects***

As of December 31, 2007, the total amount outstanding, including accrued but unpaid interest, on our variable interest rate instruments was US\$100.7 million, and from time to time as indebtedness is refinanced or renewed (particularly in the case of our short-term borrowings) we may incur additional indebtedness that bears interest at floating rates. Accordingly, we are exposed to fluctuations in interest rates, which historically have fluctuated significantly in Russia. Substantial increases in the rates of interest at which we borrow funds could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Salary increases in Russia may reduce our profit margins***

Salaries in Russia have historically been significantly lower than salaries in the more economically developed countries of North America and Europe for similarly skilled employees, although they have increased significantly in recent years. If salaries continue to increase, or increase more rapidly in Russia, our margins could be reduced. We may also need to increase the levels of our employee compensation more rapidly than in the past to remain competitive. Unless we are able to continue to increase the efficiency and productivity of our employees, salary increases could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Consolidation of the food retail industry may have a material adverse effect on our business***

The Russian food retail market is very fragmented, with a large number of retailers each holding a small share of the market. Mergers and acquisitions in the food retail market, driven by proliferation of the modern retail format and scarcity of retail space, may lead to industry consolidation. In order to compete effectively, we may need to acquire other food retail operators. There is no assurance that we will have sufficient financial resources to participate in acquisitions to the extent necessary to ensure that we are able to maintain a leading market share. In addition, such acquisitions may reduce our net profit and net cash provided by operating activities, which would have a material adverse effect on our business, results of operations, financial condition and prospects.

***Our financial statements may not be reflective of our financial performance due to appreciation of Rouble against the US dollar***

Because we report our financial statements in US Dollars, a decline in the value of the US Dollar against the Rouble results in an increase in our revenues when expressed in US Dollars and an increase in our

costs in US Dollar terms. According to the CBR, the Rouble has appreciated against the US Dollar with nominal appreciation rate increasing from 1.9% in 2005 to 4.0% in 2006 and 6.3% in 2007. If the US Dollar continues to depreciate against the Rouble, the rate of growth in our revenues and costs expressed in US Dollars would be disproportionately higher than the rate of growth in our revenues and costs expressed in Roubles.

## **Risks Relating to Russia**

### **Political and social risks**

#### ***Political and governmental instability could have an adverse effect on our business, results of operations, financial condition and prospects***

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. The President, Vladimir Putin, generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On December 2, 2007, the State Duma elections were held and, on March 2, 2008, presidential elections were held in Russia. Though the recent structure of political forces in the State Duma did not change substantially, a new President, Dmitry Medvedev, was elected who will assume power from President Putin after the May 7, 2008 inauguration. Mr. Medvedev may take a different approach to reforms and to the state's foreign and domestic policies. In addition the potential instability during the transition period following these elections could negatively affect the economic and political environment in the near term. Moreover shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the government, major policy shifts or lack of consensus between the President of Russia, the government, Russia's parliament and powerful economic groups could lead to political instability which could have a material adverse effect on the value of investments relating to Russia, including the value of the GDRs and the Shares.

#### ***The reversal of reform policies or government policies targeted at specific individuals or companies could have an adverse effect on our business as well as investments in Russia more generally***

During the presidency of Vladimir Putin, the political and economic situation in Russia has generally become more stable and conducive to investment. However, any significant struggle over the direction of future reforms, or the reversal of the reform process could lead to a deterioration in Russia's investment climate that might constrain our ability to obtain financing in the international capital markets, limit our sales in Russia or otherwise have a material adverse effect on our business, results of operations, financial condition and prospects.

In the past, Russian authorities have prosecuted some Russian companies, their senior managers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and/or significant claims for unpaid taxes with respect to companies such as Yukos, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider program of asset redistribution.

#### ***Conflicts among federal, regional and local authorities and other political conflicts could create an uncertain operating environment hindering our long-term planning ability and could adversely affect the value of investments in Russia***

Russia is a federation of 83 different sub-federal political units. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local

or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the Russian courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, either of which may prevent us from effectively and efficiently carrying out our business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasions given rise to tensions and, in certain cases, military conflict and terrorist attacks. If such tensions escalate, significant political consequences could arise, such as the imposition of a state of emergency in some or all regions of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Incomplete, unreliable or inaccurate official data and statistics could create uncertainty***

The official data published by Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in such more economically developed countries. Additionally, we rely on and refer to information and statistics from various third party sources and our own internal estimates. For example, substantially all the information contained in this Prospectus concerning our competitors has been derived from publicly available information, including press releases. We believe that these sources and estimates are reliable, but we have not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Russia in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

***Social instability could lead to labor and social unrest, increased support for renewed centralized authority, nationalism or violence***

The failure of the Russian government to adequately address social problems has led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, with support for re-nationalization of property, or expropriation of or restrictions on foreign involvement in the economy of Russia; and increased violence. Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict our operations and lead to a loss of revenue, and could otherwise have a material adverse effect on our business, results of operations, financial condition and prospects.

***Crime and corruption could create a difficult business climate in Russia***

The political and economic changes in Russia in the 1990s have resulted in a decrease in the effectiveness of actions of law enforcement authorities against crime and corruption. The local and international press has reported that significant organized criminal activity has arisen, particularly in large metropolitan centers, and that high levels of corruption exist in Russia including the bribing of government officials for the purpose of instigating investigations by government agencies. Press reports have also described instances in which government officials engage in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. Additionally, some members of the Russian media are alleged regularly to publish disparaging articles in return for payment.

The presence of organized or other crime, the demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity or disrupt our ability to conduct our business effectively, which could have a material adverse effect on our business, results of operations, financial condition and prospects.



## **Economic risks**

***Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could have an adverse effect on our business and the value of the GDRs or the Shares***

Generally, investing in emerging markets is only suitable for sophisticated investors who fully appreciate that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any large emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, businesses that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any large emerging market country could seriously disrupt our business, as well as result in a decrease in the value of the GDRs or the Shares. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the GDRs or the Shares.

***Economic instability in Russia could have an adverse effect on our business***

Russia has recently experienced rapid growth in its gross domestic product (“GDP”), higher tax collections and increased stability of the Rouble, providing a certain degree of economic soundness. However, the sustainability of this trend is not guaranteed, and if a downturn occurs, it is likely to directly impact the profitability of our business. Any of the following risks, which the Russian economy has experienced at various times, may seriously change the investment climate in Russia and in turn burden our operations with unforeseen costs:

- significant declines in GDP;
- high levels of inflation;
- sudden price declines in the natural resource sector;
- instability in the local currency market;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- pervasive capital flight;
- corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. For example, on August 17, 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble, and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

There can be no assurance that recent positive trends in the Russian economy will continue or will not be abruptly reversed. For example, during 2005, economic growth slowed down in comparison with 2004 and consumer price inflation remained high during 2005, 2006 and 2007. Any deterioration of general economic conditions in Russia could adversely influence the economic stability and consumer demand for various products, including those sold by us, and therefore could have a material adverse effect on our business, results of operations, financial condition and prospects.

Moreover, recent fluctuations in international oil and gas prices, the strengthening of the Rouble in real terms relative to the US Dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect the Russian Federation's economy and could also have a material adverse effect on our investment plans, business, results of operations, financial condition and prospects.

***Fluctuations in the global economy may have an adverse effect on Russia's economy and thus our business***

Russia's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As Russia produces and exports large quantities of oil, natural gas and other mineral resources, the Russian economy is especially vulnerable to commodity prices on the world markets and a decline in such prices or the imposition of restrictions on Russian products in principal export markets could slow or disrupt the Russian economy. Military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity prices. Any future military conflicts, acts of terrorism or natural disasters of sizeable magnitude could have an adverse effect on the international financial and commodities markets and the global economy. These developments could severely limit our access to capital and could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Inflation could increase our costs***

The Russian economy has been characterized by high rates of inflation, including an annual inflation rate of 84.4% in 1998. According to the CBR, the annual inflation rate was approximately 10.9% in 2005, 9.7% in 2006 and 9.0% in 2007. Certain of our costs, such as salaries, construction costs and rent and utilities costs, are sensitive to rises in the general price level in Russia. Due to competitive pressures or regulatory constraints we may not be able to increase our prices sufficiently to preserve our margins. As a result, high rates of inflation could increase our costs and there can be no assurance that we will be able to maintain or increase our margins.

***The physical infrastructure in Russia is in a poor condition***

The physical infrastructure in Russia is largely outdated and has not been adequately funded and maintained over the past two decades. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Electricity and heating shortages in some of the Russian Federation's regions have seriously disrupted the local economies. In May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for one day, disrupting normal business activity. Other parts of the country face similar problems.

Road conditions throughout the Russian Federation are also poor and some areas within Russia, particularly those surrounding ageing nuclear power plants, are potentially hazardous.

The federal government is actively pursuing the reorganization of the nation's rail, electricity and telephone systems. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt our business operations, including, among others, delivery of products to our convenience stores and hypermarkets and ability to fully comply with product quality standards, each of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

***The Russian banking system remains underdeveloped, and we are only able to conduct banking transactions with a limited number of creditworthy Russian banks***

Russia's banking and other financial systems are not well developed, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced further serious turmoil. As a result of various market rumors and certain regulatory and liquidity problems, several privately owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian

banks owned or controlled by the government and foreign-owned banks generally were not adversely affected by the turmoil. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign sources that would occur during such a crisis.

Recently, there has been a rapid increase in lending by Russian banks, which many, including us, believe, has been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturns or economic slowdowns.

There are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. We receive and hold funds in a number of Russian banks, including the Savings Bank of the Russian Federation (“**Sberbank**”) (Krasnodar, Severokavkazkiy and Volgo-Vjatskiy branches), OJSC Gazprombank (“**Gazprombank**”), OJSC BANK URALSIB (“**Uralsib Bank**”) and OJSC URALSIB-YUG BANK (“**Uralsib-Yugbank**”) and OJSC ALFA-BANK (“**ALFA-BANK**”), and subsidiaries of foreign banks, such as CJSC Raiffeisenbank Austria (“**Raiffeisenbank Austria**”), CJSC UniCredit Bank (“**UniCredit Bank**”) (former International Moscow Bank) and CJSC Banque Societe Generale Vostok (“**BSGV**”). However, the bankruptcy or insolvency of one or more of these banks could adversely affect our business. Another banking crisis, or the bankruptcy or insolvency of the banks which hold our funds, could result in the loss of access to our funds for several days or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

#### **Legislative and legal risks**

##### ***Weaknesses relating to the Russian legal system and Russian laws create an uncertain environment for investment and business activity in Russia and thus could have an adverse effect on our business***

The Russian Federation is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies exist between: (i) federal laws; (ii) decrees, orders and regulations issued by the President, the government and federal ministers; and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- judges and courts are relatively inexperienced in interpreting newly adopted or significantly revised laws that establish the legal framework for the operation of a market economy in Russia;
- substantial gaps exist in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures are not well developed and are subject to abuse.

Legislation relating to disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in the Russian Federation. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on our business, results of operations, financial condition and prospects.

Additionally, several fundamental Russian laws have only relatively recently become effective. The enactment of new legislation in the context of a rapid transformation to a market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws is in doubt and many new laws remain untested. Moreover, the courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. Any or all of these weaknesses could affect our ability to enforce our legal rights in Russia, including rights under our contracts, or to defend against claims by others in Russia.

Nothing in this risk factor should be taken to imply that the Company cannot comply with its obligations as a company with securities admitted to the Official List.

***Corporate governance standards in Russia are not as developed as those in Western Europe or the United States, and, as a result of the limited protection of rights of minority shareholders under Russian law, investors may be unable to pursue legal redress against us***

In 2002, Russia introduced its first corporate governance code, which is recommended for companies listed on Russian stock exchanges. However, the Russian legal system fails to provide adequate support for strong corporate governance practices. According to the European Bank of Reconstruction and Development, failures of the Russian corporate governance regime include using political connections in hostile takeovers, unlawfully engaging police or other law enforcement agencies in corporate conflicts and exercising improper influence over judicial verdicts, in particular those involving state-owned or other major business interests. In addition, as a joint stock company incorporated in the Russian Federation, we are not required to comply with UK Combined Code principles on corporate governance or similar standards of other European Union member states or the United States.

Corporate governance standards in Russia are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from lack of transparency and information disclosure (both to the public and to shareholders), lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights.

Despite recent amendments to the Federal Law No. 208-FZ "On Joint Stock Companies" dated December 26, 1995, as amended (the "**Joint Stock Companies Law**"), minority shareholders have a limited ability under Russian law to protect their rights against majority shareholders. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "*Description of Share Capital and Applicable Russian Legislation—Interested Party Transactions.*" While these protections are similar, for example, to the types of protections available to minority shareholders in US corporations, in practice, corporate governance standards have not always been as rigorously applied in many Russian companies as in Western companies.

The supermajority shareholder approval requirement is satisfied by a vote of 75% of all voting shares that are present at a general shareholders' meeting. As a result, a controlling shareholder owning slightly less than 75% of the outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders' meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. Any such actions by our controlling shareholder or management could materially and adversely affect the value of the Shares and the GDRs.

As a result of deficiencies of shareholder protections mentioned above, some minority shareholders of Russian companies have suffered significant losses due to abusive share dilutions, asset transfers and transfer pricing practices, while other shareholders have suffered as a result of fraudulent bankruptcies initiated by hostile creditors. While the Joint Stock Companies Law provides that a shareholder or shareholders owning not less than 1% of the company's issued ordinary shares may bring an action for damages caused to the company by the company's managers or directors (and provides further that any

shareholder may bring actions against a company's management and directors for compensation of damages caused to the company or such shareholder or shareholders by breach by those directors or management of certain anti-takeover provisions of the Joint Stock Companies Law), Russian courts to date have not had much experience with respect to such lawsuits. In addition, Russian law does not contemplate class action litigations. Accordingly, the ability of the holders of GDRs and Shares to pursue legal redress against us may be limited.

Moreover, some protections for minority investors that are provided under Russian law may impose additional costs on us. For example, the Joint Stock Companies Law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value. The decisions that trigger this right to sell shares include decisions with respect to a reorganization; the approval by shareholders of a "major transaction" involving assets in excess of 50% of the balance sheet value of the company's assets calculated according to RAS; and the amendment or approval of a restated version of the company's charter in a manner that limits shareholder rights. Any obligation by the Company to purchase shares in these circumstances, though limited to 10% of the Company's net assets calculated in accordance with RAS at the time the matter at issue is voted upon, could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Regulation of Russian capital markets may provide inadequate protection to holders of Shares and GDRs***

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Corporate governance, disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new concepts in Russia and are unfamiliar to many Russian companies and managers and are considerably less developed in Russia than in the United States and Western Europe. In addition, several different agencies regulate the Russian securities market, including the FSFM, the Ministry of Finance, the FAS, the CBR, and various professional self-regulatory organizations. The regulations adopted by these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities regulations can change rapidly, which may adversely affect our ability to conduct transactions in securities. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Nothing in this risk factor should be taken to imply that the Company cannot comply with its obligations as a company with securities admitted to the Official List.

***Shareholder liability under the corporate law of Russia could result in our becoming liable for the obligations of our subsidiaries***

Russian law generally provides that shareholders in a Russian joint stock company or participants of a limited liability company are not liable for the obligations of such a company and bear only the risk of loss of their investment. This may not be the case, however, when one legal entity is capable of determining decisions made by another entity. The legal entity capable of determining such decisions is called the effective parent entity (*osnovnoye obshchestvo* in Russian). The legal entity whose decisions are capable of being so determined is called the effective subsidiary entity (*docherneye obshchestvo* in Russian). The effective parent bears joint and several liability for transactions entered into by the effective subsidiary in carrying out business decisions if:

- the effective parent gives binding instructions to the effective subsidiary; and
- the right of the effective parent to give binding instructions is set forth in the charter of the effective subsidiary or in a contract between such entities.

Moreover, under Russian law, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action of an effective parent. In these instances, the other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that causes the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, in our position as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries.

***Arbitrary government action could have an adverse effect on our business and reduce the value of the GDRs and the Shares***

Government authorities have a high degree of discretion in the Russian Federation and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's, a division of McGraw Hill Companies, Inc., has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at our operations, could lead to the loss of key licenses, termination of contracts, invalidation of share issuances, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on our business and results of operations, financial condition and prospects.

In addition, recently the Russian tax authorities have aggressively pursued tax evasion claims on the basis of certain Russian companies' use of tax optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Any such selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Lack of independence and inexperience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or you from obtaining effective redress in a court proceeding, which could have an adverse effect on our business or the value of the GDRs and the Shares***

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is often understaffed and underfunded. Judges are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. Additionally, the press has often reported that court claims and governmental prosecutions are sometimes influenced by or used in furtherance of political aims or private interests. We may be subject to such claims and may not be able to receive a fair hearing. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain and could have a material adverse effect on our business, results of operations, financial condition and prospects.

***It may be difficult to ascertain the validity and enforceability of title to land in Russia and the extent to which it is encumbered or to obtain certain approvals, consents or registrations and to comply with the requirements contained in such approvals, consents, registrations and other regulations***

Following the dissolution of the Soviet Union, land reforms commenced in Russia and real estate legislation changed continuously. Over the following years more than 100 federal laws, presidential decrees and governmental resolutions were enacted or issued. Almost all Russian regions passed their own real estate legislation. In many instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose of land.

In 2001, the Russian Civil Code was amended and the new Russian Land Code as well as a number of other federal laws regulating land use and ownership were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. Moreover, in order to use and develop land and other real estate in Russia, approvals or consents of or registrations with various federal, regional and local governmental authorities

are required. Further, it is not always clear which governmental body has the right to lease land in relation to certain land plots; construction approval procedures are intricate and such approvals may be contested or totally cancelled; and building and environmental regulations often contain requirements that are difficult to fully comply with in practice. Failure to obtain the required approvals, consents or registrations and to comply with the requirements contained in such approvals, consents, registrations and other regulations may lead to severe consequences for landowners and other real estate owners and lessees, including with respect to any current construction activities. These failures and other uncertainties mentioned above may have a material adverse effect on our business, results of operations, financial condition and prospects.

***Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favor taxpayers, and we therefore may be subject to a greater than expected tax burden that could materially adversely affect our business and results of operations***

Generally, taxes payable by Russian companies are both substantial and numerous. These taxes include, among others, corporate income taxes, VAT and other sales-based taxes, unified social tax and pensions contributions, corporate property tax and other taxes.

The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation.

The quality of tax legislation has generally improved since the introduction of the first part of the Tax Code of the Russian Federation (the “**Tax Code**”) in 1999, and Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and corporate property tax with new chapters of the Tax Code. In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favors taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, are subject to review and audit by a number of authorities, each of which may impose fines, penalties and interest charges.

Generally, a tax audit covers the taxpayer’s activities for the three calendar years immediately preceding the year in which the decision to carry out the audit is adopted. This provision of the Tax Code relates to the fact that the tax authorities are prohibited from carrying out repeat on-site tax audits with respect to the same taxes for a tax period that has already been audited (an exception exists when such audit is carried out in connection with the restructuring/liquidation of a taxpayer or by a higher-instance tax authority for the purpose of checking the activities of lower-instance tax authorities or if a taxpayer resubmits an adjusted tax return, based on which the amount of tax is decreased). This limitation of the tax audit period is related to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the limitation period may be extended beyond three years. In particular, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year period if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, amendments to the first part of the Tax Code, effective January 1, 2007, provide for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. Because the terms “obstructed,” “hindered” and “created insurmountable obstacles” are not defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed,” “hindered” or “created insurmountable obstacles” with respect to an inspection and ultimately to seek penalties beyond the three-year term. In addition, in some instances, new tax regulations have been given retroactive effect. Therefore, tax audits may result in additional costs to us if the relevant authorities conclude that we did not satisfy our tax obligations in any given year. They may also impose additional burdens on us by diverting the attention of our management. The outcome of these audits may result in significant fines, penalties and enforcement measures which may have a material adverse impact on our business, results of operations, financial condition and prospects.

Moreover, financial statements of a Russian group of companies are not consolidated for tax purposes. Therefore, each of our subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another subsidiary in the consolidated group. In addition, payments of inter-company dividends between two Russian entities are generally subject to a withholding tax of 9%, except for certain

exemptions introduced by recent amendments to the Tax Code, effective January 1, 2008. In particular, dividends received by Russian entities from Russian and foreign subsidiaries are subject to withholding tax at the rate of 0% if several conditions with respect to subsidiaries are simultaneously met.

For details on dividends taxation in Russia, see “*Taxation—Russian Tax Considerations.*”

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. There can be no assurance that current taxes will not be increased or additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see “—*Arbitrary government action could have an adverse effect on our business and reduce the value of the GDRs and the Shares.*” In addition to our tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance and could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities with respect to all controlled transactions***

Russian transfer pricing rules give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities with respect to all “controlled” transactions, where the transaction price differs from the market price by more than 20%. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e., if the price of such transactions differs from the prices for similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities or derivatives.

The Russian transfer pricing rules are vaguely drafted and subject to differing interpretations by Russian tax authorities and courts. Imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on our business, results of operations, financial condition and prospects.

***Russian legislation may not adequately protect against expropriation and nationalization***

The Russian government has enacted legislation to protect foreign investment and other property against expropriation and nationalization. In the event that such property is expropriated or nationalized, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. Expropriation or nationalization of our business could have a material adverse effect on our business, results of operations, financial condition and prospects.

***Restrictive currency regulations may adversely affect our business and financial condition***

Notwithstanding significant recent liberalization of the Russian currency control regime and the abolishment of certain restrictions from January 1, 2007, the Federal Law No. 173-FZ “On Currency Regulation and Currency Control” of December 10, 2003, as amended (the “**Currency Law**”), and current regulations still contain a number of limitations on foreign currency operations. In particular, Russian companies must notify Russian tax authorities on opening, closing or changes of details of bank accounts denominated in any currency with banks located outside of the Russian Federation. Such a notification must be filed within one month from the date on which such an account was opened or closed or on which the account details were changed. Moreover, certain currency control restrictions were not repealed from January 1, 2007 and these include a general prohibition of foreign currency operations between Russian companies (except for the operations specifically listed in the Currency Law and the operations between the authorized banks specifically listed in the CBR regulations) and the requirement to repatriate, subject to certain exemptions, export-related earnings to Russia. Restrictions on our ability to conduct some of these transactions could increase our costs, or prevent us from continuing necessary business operations, or from successfully implementing our business strategy, which could have a material adverse effect on our business, results of operations, financial condition and prospects.



## **Risks Relating to the Global Offering and the Shares and the GDRs**

### ***If the Share Issue is not completed, we may not receive the proceeds from the Share Issue and our shareholding structure may differ from what is currently contemplated***

As more fully described in “*The Global Offering*” and “*Plan of Distribution*”, in connection with the Global Offering, we will issue New Shares through an open subscription. The Selling Shareholder will offer 4,653,778 Shares in the Global Offering. If the Selling Shareholder fails to exercise its statutory pre-emptive right or to pay for a portion of the New Shares, or if we fail to file a placement notification with the FSFM as provided by Russian law, or the relevant authorities do not perform the required registrations, we would be unable to consummate the Global Offering as currently intended and therefore we may not receive or retain all or a significant portion of the anticipated proceeds from the Share Issue; and our shareholding structure would differ from the shareholding structure currently contemplated.

Moreover, our placement notification, the filing thereof or the Share Issue may in its entirety under Russian law be subsequently challenged in court on the basis of non-compliance with Russian law. If any such challenge is successful, the Share Issue may be invalidated and we may be obliged to return the proceeds from the sale of the New Shares to persons who acquired our shares in the course of the Share Issue, including the Selling Shareholder.

### ***Because there has been no prior market for the GDRs, the Global Offering may not result in an active or liquid market for the GDRs, and their price may be highly volatile***

Before the Global Offering, there has been no prior market for the GDRs. Although applications have been made to the UK Financial Services Authority for the GDRs to be admitted to the Official List and to the London Stock Exchange for such GDRs to be admitted to trading on the Regulated Market, an active public market may not develop or be sustained after the Global Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Shares and the GDRs does not develop, the price of the GDRs may become more volatile and it may be more difficult to complete a buy or sell order for such GDRs.

The trading prices of the Ordinary Shares and the GDRs may be subject to wide fluctuations in response to a number of factors, including:

- variations in our operating results and those of other Russian companies;
- variations in national and industry growth rates;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

In addition, the Russian stock markets have experienced extreme price and volume fluctuations. These market fluctuations could adversely affect the value of the Shares and the GDRs. Moreover, the market price of the Shares and the GDRs may decline below the offer price per Share and the offer price per GDR, respectively, which will be determined based on the results of the bookbuilding exercise conducted by the Managers.

### ***The Shares may be de-listed from MICEX or RTS, the FSFM permission for the GDR program may be revoked, and the GDR facilities may have to be terminated***

In order to maintain our “B” listing on MICEX and RTS, we are required to comply with listing requirements, including, among others, the securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements as well as minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for de-listing a company.

There can be no assurance that a failure to comply with corporate governance requirements will not result in a de-listing of the Ordinary Shares. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the value of our Shares and the GDRs.

***The New Shares will become transferable on the next business day following filing of a valid Placement Notice with the FSFM, but the failure to duly and timely file the Placement Notice or any other violations of the Russian securities laws could result in the Global Offering being held invalid, failed or incomplete.***

The New Shares issued in the Global Offering will generally become transferable on the next business day following filing by the Company of a valid Placement Notice with the FSFM, provided that the filing of such Placement Notice is duly and timely made. The Company intends to file the Placement Notice on or about May 13, 2008, but in any event not later than 30 days following completion of the placement, which is the deadline established for such filing under applicable Russian law and the Company's decision on issuance with respect to the New Shares. During the period commencing on the GDR Closing Date and ending on the business day following receipt by the Depositary of a written notice from the Company that either a valid Placement Notice has been duly and timely filed with, or a placement report had been registered by the FSFM, GDR holders will not be able to withdraw any Shares underlying any GDRs or instruct the Depositary to vote the Shares evidenced by the GDRs, as they would otherwise be able to do. Such limitations on withdrawal and voting of the underlying Ordinary Shares apply with equal force to all Shares deposited with the Depositary against the issuance of GDRs, whether deposited by the Company with the Depositary at closing against the issuance of GDRs in connection with the Global Offering or otherwise.

If the Company fails to duly and timely file the Placement Notice, it would still be entitled to file a placement report for registration with the FSFM, pending which registration the GDRs would continue to be provisionally issued and the withdrawal and voting restrictions discussed above would remain in place. The FSFM is statutorily required to make a decision on registration within two weeks after the Company files the placement report, but it may take longer or the registration of the placement report may not occur at all. The FSFM may refuse to register the placement report if, among other things, the Company violated Russian law in the issuance process and a Russian court may also hold the placement invalid for such violations. In such case, the subscription may be declared invalid, failed or incomplete. In that case, Russian law will require the Company to refund the proceeds of the Global Offering of New Shares to the subscribers for such Shares, including the Depositary, without interest.

Under the Deposit Agreement, if a Placement Notice has not been duly and timely filed with the FSFM or the Company did not have the right to file it and a placement report has not been registered within 75 calendar days of the GDR Closing Date (or such other time as may be agreed between the Company and the Managers), the Company will notify the Depositary, and the Depositary will cancel such number of GDRs as determined by the Depositary on a *pro rata* basis or such other basis as the Depositary determines is practicable in its sole discretion, whereupon the Company will deliver to the Depositary the amount of proceeds required under Russian law for remittance to the then holders of GDRs. From the time the Depositary receives such funds, the GDRs issued in connection with the Global Offering will represent the right to receive a proportional interest in the funds so received. The funds so received by the Depositary in any currency other than US Dollars will be converted into US Dollars (at the market rates then available) and distributed to the then holders of the relevant GDRs in accordance with the terms of the Deposit Agreement. The amount per cancelled GDR ultimately delivered to holders of GDRs may be less than the offer price per GDR. The delivery of funds may be subject to applicable withholding taxes and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring the conversion of funds from or into Roubles) and may be prevented if there is a change in such regulations or practices.

Furthermore, there is a risk that the Placement Notice or a placement report or its (their) filing with the FSFM or the issuance of the New Shares, in general, may be challenged in court by any interested party for failing to comply with Russian securities laws within three months from the date of filing of the Placement Notice (placement report). Any such challenge, if successful, may result in the invalidation of the issuance of the New Shares, cancellation of the New Shares and such number of GDRs as determined by the Depositary on a *pro rata* basis or such other basis as the Depositary determines is practicable in its sole discretion and return of the proceeds from the Global Offering to the holders of the New Shares and GDRs as described above.

Finally, the number of GDRs to be cancelled on a *pro rata* basis pursuant to the preceding two paragraphs may need to be adjusted to account for additional deposits of Shares, if any, accepted by the Depositary under the Deposit Agreement prior to the expiration of the three month period after the filing of the Placement Notice (or registration of a placement report, as the case may be) or such other period as may be prescribed under Russian law during which the New Shares and other Shares which existed at the time of the Offering remain non-fungible (i.e., carry distinct identification numbers) in the event that such

additional deposits have resulted in a different ratio of New Shares to such existing Shares than in the initial deposit accepted by the Depositary in connection with the Global Offering.

GDR holders will be taking credit risk on the Company for the delivery of funds in the event that a Placement Notice is not filed, a placement report is not registered or the subscription is challenged and/or declared invalid, failed or incomplete due to failure by the Company to duly and timely file the Placement Notice, or if the Company does not have the right to file such a Placement Notice, or for any other reasons.

***Investors in the Global Offering will suffer immediate and substantial dilution***

The price at which the Shares are being sold in the Global Offering is substantially higher than the Group's net tangible book value per Ordinary Share. Therefore, purchasers of the Shares will incur immediate and substantial dilution in net tangible book value per Share. Further, the issue of the New Shares offered in the open subscription will also dilute the Group's net tangible book value per Ordinary Share. For more information on dilution, see "Dilution" below.

***We do not intend to pay dividends in the foreseeable future, and our ability to pay dividends will depend upon the level of dividends and distributions, if any, received from our operating subsidiaries and other factors***

We do not intend to pay dividends in the foreseeable future. The payment of dividends, if any, by the Company will depend on, among other things, our future profits, financial position and capital requirements, the sufficiency of the Company's distributable reserves, the ability of subsidiaries to pay dividends or distributions to the Company, credit terms, general economic conditions and other factors that our directors deem to be important from time to time.

***Because the Depositary may be considered the beneficial holder of the Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary***

Many jurisdictions, such as the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as the GDRs holders. In these jurisdictions, shares held by the depositary on behalf of the global depositary receipts holders would not be subject to seizure in connection with the legal proceedings against the depositary that are unconnected with the shares.

Russian law may not, however, recognize a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying global depositary receipts and, accordingly, may not recognize global depositary receipts holders' beneficial ownership in such shares.

Thus, in proceedings brought against the Depositary, whether or not related to the Shares underlying the GDRs, Russian courts may treat those underlying Shares as the assets of the Depositary, open to seizure or arrest.

In the past, a lawsuit was filed against a depositary other than the Depositary seeking the seizure of various Russian companies' shares represented by GDRs issued by that other depositary. In May 2007, the Federal Customs Service of Russia filed a new lawsuit against that other depositary, based on allegations of fact common to the prior lawsuit. In the event that a lawsuit seeking the seizure or arrest of the Shares underlying our GDRs were to be successfully initiated in the future against the Depositary, and the Shares underlying the GDRs were to be seized or arrested, the holders of the GDRs involved would lose their rights to such underlying Shares and all or part of the money invested in them.

***Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and the Deed Poll relating to the GDRs and the relevant requirements of Russian law***

The holders of the GDRs will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by the GDRs only in accordance with the provisions of the Deposit Agreement and the Deed Poll relating to the GDRs and the relevant requirements of Russian law. There are, therefore, practical limitations upon the ability of the holders of the GDRs to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, our charter, in compliance with the Joint Stock Companies law, requires us to notify shareholders at least 30 days in advance of any general shareholders' meeting and at least 70 days prior to the date of an extraordinary general shareholders' meeting to elect directors and to pass upon certain other matters. Our shareholders will receive notice directly from us and they will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

The holders of the GDRs, by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreement, we will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no US, UK or Russian legal prohibitions (including, without limitation, the Listing Rules and prospectus rules of the FSA and the admission and disclosure standards of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares are listed), to distribute to the holders of the GDRs notice of the meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by holders of the GDRs. To exercise their voting rights, the holders of the GDRs must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for holders of the GDRs than for holders of the Shares and we cannot assure the holders of the GDRs that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from the holders of the GDRs, such regulations remain untested, and the Depositary may choose, if requested by us, to refrain from voting at all unless it receives instructions from all the holders of the GDRs to vote the Shares in the same manner. The holders of the GDRs may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will (i) receive notice of general shareholders' meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs with respect to shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights with respect to an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (1) vote the Shares represented by their GDRs on a cumulative basis if such votes are split and split votes are rejected by the Company or the Custodian or held invalid by the Russian courts, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for our board of directors (the "**Board of Directors**") or our internal audit commission. If holders of GDRs wish to take such actions, they should timely request that their GDRs be canceled and take delivery of the Shares and thus become the owners of the Shares on our share register.

#### ***Investors may be unable to repatriate their earnings from distributions made on the GDRs***

In its Information Letter No. 31 dated March 31, 2005, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are not Russian residents, but there can be no assurance that this declaration will not be reversed in the future.

The ability of non-Russian shareholders to convert Roubles into hard currencies is subject to the availability of hard currency in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of Roubles into hard currencies, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of Roubles into foreign currencies outside of Russia and no viable market in which to hedge Rouble and Rouble-denominated investments.

#### ***Future sales of Ordinary Shares and GDRs may affect the market price of the Ordinary Shares and the GDRs***

Sales, or the possibility of sales, of substantial numbers of Ordinary Shares or GDRs in the public markets, including, in the case of Ordinary Shares, the Russian stock market, following the Global Offering could have an adverse effect on the trading prices of the Ordinary Shares and the GDRs and could affect our ability to obtain further capital through an offering of equity securities. We, the Selling Shareholder and all of our senior managers and directors who own Ordinary Shares have undertaken not to offer, issue or sell any of our securities that are substantially similar to the Ordinary Shares or GDRs for 180 days after the GDR Closing Date, subject to certain limited exceptions. See "*The Global Offering—Lock-up.*" Sales of such securities by any of these persons following the end of this period or the waiver of these restrictions could have an adverse effect on the trading prices of the Ordinary Shares and the GDRs.

Further, subsequent equity offerings may reduce the percentage ownership of our existing shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the Ordinary Shares.

***The value of any dividends or distributions received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Rouble and the US Dollar***

We anticipate that any dividends or distributions we may pay or make, respectively, in the future in respect of the Ordinary Shares represented by the GDRs will be declared and paid to the Depositary in Roubles and will be converted into US Dollars by the Depositary and distributed to the holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Rouble and the US Dollar. If we declare and pay dividends in Roubles, and the Rouble depreciates against the US Dollar, the value of dividends received by the holders of the GDRs will decrease. Such an event could have an adverse effect on the trading price of the GDRs.

***Following the Global Offering you may not be able to deposit the Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Global Offering***

Whenever the Depositary believes that the Ordinary Shares deposited with it against issuance of GDRs represent (or, upon accepting any additional shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or triggers any condition for the making of any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional Ordinary Shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, subject to prior consultation with us to the extent reasonably practicable, causing *pro rata* cancellation of GDRs and withdrawal of underlying Ordinary Shares from the depositary receipt program to the extent necessary or desirable to so comply.

Russian securities regulations provide that no more than 35% of any class of a Russian company's issued shares may be circulated abroad through depositary receipt programs or otherwise. We have received permission from the FSFM for 11,522,000 of our Ordinary Shares to be circulated abroad through depositary receipt programs. Upon the completion of the Global Offering and the Share Issue and assuming that our shareholders (including the Selling Shareholder and Mr. Sergey Galitskiy) exercise and pay for 6,234,140 Ordinary Shares on the basis of their pre-emptive rights and that all Shares offered in the Global Offering (including pursuant to the Over-allotment Option) are deposited with the Custodian for the account of the Depositary under the GDR program, the GDR program will account for approximately 6.69% of our Ordinary Shares. There can be no assurance that we will be able to obtain approval for a deposit of a greater number of Ordinary Shares with the Custodian for the account of the Depositary under the GDR program than we currently have approval for, and any remaining capacity may be used by our other existing shareholders. As a result, following the Global Offering, you may not be able to deposit Shares with the Custodian for the account of the Depositary under the GDR program in order to receive GDRs.

In addition, under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares or 35 days from the date when the acquirer knew or should have known that it, either independently or together with its affiliates, owns such number of shares, a mandatory tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or as the case may be, 50% or 75%) of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "*Description of Share Capital and Applicable Russian Legislation—Change of Control—Anti-takeover Protection.*" Under Russian law, the Depositary may be considered the owner of the Shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules. See "*—Because the Depositary may be considered the beneficial holder of the*

*Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary.*” Accordingly, the Depositary may close its books to new deposits that would cause it to hold 29.99% or more of our Ordinary Shares. Therefore, at present, the mandatory tender offer rules result in a de facto limit on the proportion of our shares that may be deposited into our GDR program at 29.99% of our Ordinary Shares.

In addition, under Russian anti-monopoly legislation, transactions exceeding a certain amount, involving companies with a combined value of their assets under RAS that exceeds a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and resulting in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets the value of which exceeds a certain amount, must be approved in advance by the FAS. See “*Description of Share Capital and Applicable of Russian Legislation—Antimonopoly Regulation.*” The Depositary has received general interpretive guidance from the FAS that it need not obtain the approval referred to in the preceding sentence in connection with depositary receipt programs such as our GDR program. If, however, the FAS were to rescind or disregard its above-mentioned interpretation, our GDR program would be subject to a de facto limit of 25% of our Ordinary Shares, unless the Depositary could obtain FAS approval for a higher percentage.

As a result, it may not be possible to deposit Ordinary Shares into our GDR program in order to receive GDRs, and under certain circumstances you may be required to withdraw Shares from the GDR program, which may in either case affect the liquidity and the value of your investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that changes by the authorities will not adversely affect the legality and or size of our GDR program, which could adversely affect the value of the Shares and the GDRs.

Any additional issuance of our Ordinary Shares will be registered with the FSFM, and will be assigned a provisional state registration number, containing a suffix distinguishing it from the previous issuance of our Ordinary Shares of the same class. Following completion of the issuance, the provisional suffix will be cancelled. The FSFM permission for our GDR program expressly permits the deposit of shares having specific registration numbers, namely, 1-01-60525-P and 1-01-60525-P-004D. Shares having a different registration number, whether currently in issue or to be issued in the future, may not be deposited in our GDR program. As a result, the depositary may be entitled to refuse a deposit of shares having a different registration number than those set out in the FSFM permission for the GDR program.

***The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of the Shares and the Ordinary Shares represented by the GDRs***

Ownership of shares in Russian joint stock companies (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of a registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company’s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence or oversight by registrars incapable of compensating shareholders for their misconduct. See “*Description of Share Capital and Applicable Russian Legislation*” for more discussion of the share registration system and registrars in Russia. This creates risks of loss not normally associated with investments in other securities markets.

***Holders of the Shares or GDRs may not be able to benefit from double tax treaties***

Under Russian law, dividends paid to a non-resident holder of the Shares or the GDRs generally will be subject to Russian withholding tax at a rate of 15%. This tax may be reduced to 5% for US holders that are companies owning 10% or more of the entity’s voting shares or to a 10% rate for dividends paid to

other US holders under the United States Russia Tax Treaty for US holders entitled to treaty benefits and to 10% under the United Kingdom Russia Tax Treaty for UK holders entitled to treaty benefits. However, the Russian tax rules applicable to the holders of the GDRs are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005 and 2006, the Ministry of Finance of the Russian Federation expressed an opinion that holders of global depository receipts should be treated as the beneficial owners of the underlying shares for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residencies of the holders of the global depository receipts are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how Russian tax authorities will ultimately treat the holders of the GDRs in this regard. Thus, in the absence of any official interpretive guidance on the concept of beneficial ownership for Russian tax purposes with respect to GDRs, and unless we receive adequate clarification from the Russian competent authorities that it is permitted under Russian law to withhold Russian withholding tax with respect to dividends we pay to the Depository at a lower rate than the domestic rate applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depository (the legal owner of the Shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant double tax treaty if it were the beneficial owner of the dividends for purposes of that treaty. Therefore, US and UK holders of GDRs may be unable to benefit from the relevant double tax treaties and although such treaties enable non-resident GDR holders to apply to the Russian tax authorities for a refund of the respective amount of tax so withheld by us, we cannot make any assurances that the Russian tax authorities will grant any refunds.

***Capital gains from the sale of the Shares or GDRs may be subject to Russian income tax***

Under Russian tax legislation, gains arising from the sale, exchange or other disposition by non-resident holders (legal entities or organizations) of shares issued by a Russian company (the “**Issuing Company**”), such as the Shares, as well as financial instruments derived from such Shares, such as the GDRs, may be subject to Russian income tax or withheld at source by the Russian payer of the income if immovable property located in Russia constitutes more than 50% of the Issuing Company’s assets. However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered presence in Russia. Gains arising from the sale, exchange or other disposition of the foregoing types of securities on foreign stock exchanges where these securities are listed by non-resident holders that are legal entities or organizations are not treated as income from a Russian source, and are not subject to taxation in Russia. Therefore, so long as the GDRs remain listed on the London Stock Exchange, gains arising from the sale, exchange or other disposition on the London Stock Exchange of the GDRs by non-resident legal entities or organizations should not be subject to taxation in Russia.

Gains arising from the sale, exchange or other disposition of the Shares or the GDRs outside of Russia by holders who are individuals not tax resident in Russia will not be considered Russian source income and therefore should not be taxable in Russia. Gains arising from sale, exchange or other disposition of the Shares or the GDRs in Russia by holders who are individuals not tax resident in Russia for tax purposes may be subject to personal income tax. See “*Taxation*” for further details.

## THE GLOBAL OFFERING

<b>The Company</b>	Open Joint Stock Company “Magnit”, an open joint stock company organized under the laws of the Russian Federation.
<b>The Selling Shareholder</b>	Lavreno Limited, a company incorporated under the laws of the Republic of Cyprus.
<b>The Global Offering</b>	<p>The Global Offering consists of (i) an offering by the Company of 5,065,860 Shares in the form of GDRs, with five GDRs representing one Ordinary Share, and (ii) an offering of 4,653,778 existing Shares by the Selling Shareholder.</p> <p>The Rule 144A GDRs are being offered only to QIBs in the United States in reliance on Rule 144A and the Regulation S GDRs are being offered outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S. The Shares are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. The Shares are also being offered in the Russian Federation in reliance on Regulation S.</p>
<b>Offer Price</b>	US\$42.50 per Share and US\$8.50 per GDR.
<b>GDR Closing Date</b>	Expected to be on or about April 21, 2008.
<b>Share Closing Date</b>	Expected to be on or about April 30, 2008.
<b>Over-allotment Option</b>	The Selling Shareholder has granted to the Managers an option exercisable within 15 days after the announcement of the offer price, to purchase up to an additional 2,532,930 GDRs at the offer price per GDR, solely to cover over-allotments.
<b>Share Issue</b>	The Share Issue constitutes the issue by the Company of up to 11,300,000 New Shares to be placed through an open subscription. Our decision on the Ordinary Share issuance and the statutory Russian prospectus for the New Shares (the “ <b>Issue Documents</b> ”) were registered with the FSFM on March 20, 2008. We have appointed Deutsche Bank Ltd. as a Russian-licensed broker (the “ <b>Broker</b> ”) to facilitate the open subscription for the New Shares. Accordingly, any investor may submit an offer to the Managers or directly to the Company via the Broker to purchase a portion of the New Shares. The Managers have agreed to procure submission of offers for those New Shares that are not subscribed for by the Company’s existing shareholders in the exercise of their pre-emptive rights. Under the terms of the Issue Documents, the Company has discretion over accepting orders from new investors.
<b>Use of Proceeds</b>	We expect to receive gross proceeds of US\$480.25 million from the Share Issue, assuming that all New Shares subscribed for by our existing shareholders in the exercise of their statutory pre-emptive rights are purchased and paid for. After the payment of fees and expenses associated with the Global Offering and the Share Issue (including commissions of the Managers, fees and expenses of legal counsel to the Managers, our legal counsel and our auditors, as well as expenses related to the road show, printing and other expenses), we expect to receive the net proceeds of the Share Issue of approximately US\$464.2 million.



The Selling Shareholder will sell 4,653,778 Shares in the Global Offering. Assuming full exercise of the Over-allotment option, the Selling Shareholder will sell an aggregate of 5,160,364 Shares in the Global Offering. It intends to transfer a part of the net proceeds it receives from these sales to us by exercising its statutory pre-emptive right to subscribe for 592,490 New Shares. In addition, the Selling Shareholder has agreed to use a further portion of the proceeds to provide a loan of approximately US\$184.9 million to Mr. Sergey Galitskiy, which he will use to subscribe for 4,350,474 New Shares by exercising his statutory pre-emptive rights. Mr. Sergey Galitskiy has agreed to transfer such New Shares to the Selling Shareholder in repayment of the loan. As a result of these transactions, the Selling Shareholder and Mr. Galitskiy will together have decreased their shareholding in the Company by 217,400 Ordinary Shares and will have retained gross proceeds from the Global Offering, after giving effect to the exercise of their statutory pre-emptive rights, of approximately US\$9.2 million.

We plan to use the net proceeds of the Share Issue to finance further expansion of our chain of hypermarkets, as well as to continue the expansion of our convenience store operations and further development of our logistics capabilities. With respect to the net proceeds of the Share Issue that cannot be used for such purposes immediately, pending such uses, we plan to apply the net proceeds of the Share Issue to repay amounts outstanding under our revolving credit line facilities and then, in the course of 2008, use the amounts available under these facilities for the purposes described in the previous sentence.

### **Pre-emptive Rights**

Our shareholders of record as of February 12, 2008 have a statutory pre-emptive right under Russian law to subscribe for New Shares *pro rata* to their existing shareholding as of that date. We published a notice to such shareholders advising them of their statutory pre-emptive rights on March 22, 2008. Our existing shareholders may exercise their pre-emptive rights over a period of 20 calendar days commencing on March 23, 2008 and ending on April 11, 2008 (inclusive). Any New Shares not subscribed for by our shareholders by such date in the exercise of their statutory pre-emptive rights will be offered to other investors in the Global Offering. As of the date hereof, we have received applications from our existing shareholders with respect to 6,234,140 New Shares, including an application from the Selling Shareholder with respect to 592,490 New Shares and an application from Mr. Sergey Galitskiy with respect to 4,350,474 New Shares. In order for Mr. Sergey Galitskiy to pay for such Shares, the Selling Shareholder has agreed to provide a loan of approximately US\$184.9 million from the net proceeds received by it in the Global Offering to Mr. Sergey Galitskiy, which will be used by him to exercise his pre-emptive rights to subscribe for New Shares in the Share Issue. Mr. Sergey Galitskiy has agreed to transfer such New Shares to the Selling Shareholder to repay the loan. See also “*Description of Share Capital and Applicable Russian Legislation.*” Any New Shares subscribed for by our existing shareholders shall be paid for at the offer price per Share. See “—*Offer Price.*” Shareholders exercising their statutory pre-emptive rights must pay for the New Shares in same-day funds not later than 15 Moscow business days from and including the date of the disclosure of the offer price per Share. Any New Shares subscribed but not paid for in full by our existing shareholders in the exercise of their statutory pre-emptive rights

will not be allocated to them, will not be sold in the Global Offering and will be cancelled. See “*Plan of Distribution.*”

### **Share Capital**

Prior to the Global Offering and the Share Issue, our share capital consisted of 72,000,000 issued and outstanding Ordinary Shares, each with a nominal value of 0.01 Roubles, which have been fully paid. In addition, we are authorized by our charter to issue up to 128,850,000 additional Ordinary Shares and, of this amount, the issuance of 11,300,000 New Shares has been approved by our board of directors and registered with the FSFM. Following the completion of the Global Offering and the Share Issue, and assuming that all our shareholders (including the Selling Shareholder and Mr. Sergey Galitskiy) exercise and pay for 6,234,140 Ordinary Shares on the basis of their pre-emptive rights, our share capital will consist of 83,300,000 issued and outstanding Ordinary Shares.

Our Ordinary Shares are subject to applicable provisions of Russian corporate law and our charter and have the rights described under “*Description of Share Capital and Applicable Russian Legislation.*”

### **The GDRs**

Five GDRs will represent one Ordinary Share on deposit with Sberbank (Joint Stock Commercial Savings Bank of the Russian Federation (open joint stock company)), as custodian (the “**Custodian**”) for the Depositary. The GDRs will be issued pursuant to a deposit agreement between the Company and the Depositary and a Deed Poll in favor of the holders of GDRs relating to the Rule 144A GDRs and the Regulation S GDRs (the “**Deposit Agreement**”). The GDRs will be evidenced initially by a Master Regulation S GDR Certificate and a Master Rule 144A GDR Certificate issued pursuant to the Deposit Agreement. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held in Russia by the Custodian for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs.

Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR Certificates. Subject to the terms of the Deposit Agreement, interests in the Master Rule 144A GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Regulation S GDR Certificate. See “*Terms and Conditions of the GDRs,*” “*Clearing and Settlement—Registration and Form*” and “*Clearing and Settlement—Global Clearance and Settlement Procedures—Secondary Market Trading.*”

### **Placement Notice**

The New Shares will become transferable on the business day following the filing of the Placement Notice. Accordingly, prior to the business day following receipt by the Depositary of written notice from the Company that either the Placement Notice has been duly and timely filed, or a placement report has been registered, with the FSFM, all GDRs will be issued on a provisional basis and holders of the GDRs will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the Shares or other property on deposit with the Depositary in respect of the GDRs sold in the Offering prior to the business day following

receipt by the Depositary of aforementioned notice. Such limitation on the withdrawal and voting of the underlying ordinary shares will not prohibit trading in the GDRs. See “*Risk Factors—Risks Relating to the Global Offering and the Shares and the GDRs—The New Shares will become transferable on the next business day following filing of a valid Placement Notice with the FSFM, but the failure to duly and timely file the Placement Notice or any other violations of the Russian securities laws could result in the Offering being held invalid, failed or incomplete.*”.

### **Lock-up**

We, the Selling Shareholder, Mr. Sergey Galitskiy, and all of our senior managers and directors who own Ordinary Shares have agreed not to issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any Ordinary Shares or securities convertible or exchangeable into or exercisable for any Ordinary Shares or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Ordinary Shares, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities, or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Share Closing Date, subject to certain limited exceptions, without the prior written consent of the Managers other than pursuant to the Global Offering. See “*Plan of Distribution.*”

### **Transfer Restrictions**

The Shares and the GDRs will be subject to certain restrictions on transfer as described under “*Terms and Conditions of the GDRs*” and “*Transfer and Selling Restrictions.*”

### **Listing and Market for the Ordinary Shares and GDRs**

Our existing Ordinary Shares have been admitted to list “**B**” on each of MICEX and RTS, in each case under the symbol “**MGNT**.”

Application has been made (i) to the FSA for a block listing of up to 57,610,000 GDRs, consisting of 25,329,300 GDRs to be issued on or about the GDR Closing Date, up to 2,532,930 GDRs to be issued in connection with the Over-allotment Option described herein and up to 29,747,770 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the Regulated Market. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about April 16, 2008, and Admission is expected to take place on the GDR Closing Date. Application has been made to have the Rule 144 GDRs designated eligible for trading on PORTAL.

Application will be made to list the New Shares on RTS and for admission to trading on MICEX. The New Shares are expected to be traded on RTS under the symbol “MGNT” and on MICEX under the temporary symbol “MGNT-004D”, following admission to trade within the first three months after the filing of the Placement Notice with the FSFM, following which the New Shares are expected to be traded on MICEX under the symbol “MGNT”.

Ordinary Shares may be deposited, subject to the provisions set forth under “*Terms and Conditions of the GDRs*” and in the Deposit Agreement, with the Custodian against which deposit the

Depository shall deliver GDRs representing such Ordinary Shares (to the extent permitted by law) up to a maximum aggregate number of 57,610,000 GDRs. See also “*Risk Factors—Risks Relating to the Global Offering and the Shares and the GDRs—Following the Global Offering you may not be able to deposit the Shares in the GDR program in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs offered in the Global Offering.*”

## **Settlement Procedures**

Payment for, and delivery of, the GDRs is expected to be made in US Dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream, as the case may be, on the GDR Closing Date. The Depository will apply to DTC to have the Rule 144A GDRs accepted into DTC’s book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of BNP Paribas, as common depository for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in the limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See “*Clearing and Settlement—Global Clearance and Settlement Procedures.*” For information on the transfer of interests in Rule 144A GDRs represented by the Master Rule 144A GDR Certificate to, or for the account of, a person wishing to take delivery thereof in the form of interests in Regulation S GDRs represented by Master Regulation S GDR Certificate, see “*Clearing and Settlement—Global Clearance and Settlement Procedures—Transfer of Interests in Rule 144A GDRs Represented by the Master Rule 144A GDR Certificate to, or for the Account of, a Person Wishing to Take Delivery thereof in the Form of Interests in Regulation S GDRs Represented by Master Regulation S GDR Certificate.*”

Each purchaser of the Shares in the Global Offering is required to pay for such Shares in US Dollars or Roubles in same-day funds prior to delivery of such Shares to the purchasers, which is expected to commence on or about April 21, 2008. In order to take delivery of the Shares, an investor should have either a direct account with our share registrar, OJSC “United Registration Company”, or a deposit account with Closed Joint Stock Company “Depository Clearing Company” (“**DCC**”) or Not-for-Profit Partnership “The National Depository Center” (“**NDC**”) or any other depository that has an account with DCC or NDC. Investors may at their own expense choose to hold the Shares through a direct account with our share registrar or through a deposit account with a Russian-licensed depository other than NDC or DCC, although the Shares held in each such way will be ineligible for trading on MICEX and RTS.

**Voting**

If you hold Shares, you are generally entitled to one vote per share at a general shareholders' meeting, subject to certain exceptions described in "*Description of Share Capital and Applicable Russian Legislation—General Shareholders' Meeting.*" Under the Deposit Agreement, five GDRs carry the right to vote one Ordinary Share, subject to the provisions of the Deposit Agreement and applicable Russian law. Fractional interests in shares are not entitled to vote. See "*Terms and Conditions of the GDRs—Voting Rights.*"

**General Information**

It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP: 55953Q202 ISIN: US55953Q2021 Common Code: 35563695 SEDOL: B2QKYZ0
Rule 144A GDRs:	CUSIP: 55953Q103 ISIN: US55953Q1031 Common Code: 35563709 SEDOL: B2QKZJ1
ISIN for Shares:	RU000A0JKQU8
London Stock Exchange GDR trading symbol:	MGNT
CFI code:	EMXRFR
PORTAL identification number	P55953Q103
MICEX trading symbol:	MGNT
RTS trading symbol:	MGNT
Temporary MICEX trading symbol for New Shares:	MGNT-004D

## USE OF PROCEEDS

We expect to receive gross proceeds of US\$480.25 million from the Share Issue, assuming that all New Shares subscribed for by our existing shareholders in the exercise of their statutory pre-emptive rights are purchased and paid for. After the payment of fees and expenses associated with the Global Offering and the Share Issue (including commissions of the Managers, fees and expenses of legal counsel to the Managers, our legal counsel and our auditors, as well as expenses related to the road show, printing and other expenses), we expect to receive net proceeds of the Share Issue of approximately US\$464.2 million.

The Selling Shareholder will sell 4,653,778 Shares in the Global Offering. Assuming full exercise of the Over-allotment option, the Selling Shareholder will sell an aggregate of 5,160,364 Shares in the Global Offering. It intends to transfer a part of the net proceeds it receives from these sales to us by exercising its statutory pre-emptive right to subscribe for 592,490 New Shares. In addition, the Selling Shareholder has agreed to use a further portion of the proceeds to provide a loan of approximately US\$184.9 million to Mr. Sergey Galitskiy, which he will use to subscribe for 4,350,474 New Shares by exercising his statutory pre-emptive rights. Mr. Sergey Galitskiy has agreed to transfer such New Shares to the Selling Shareholder in repayment of the loan. As a result of these transactions, the Selling Shareholder and Mr. Galitskiy will together have decreased their shareholding in the Company by 217,400 Ordinary Shares and will have retained gross proceeds from the Global Offering, after giving effect to the exercise of their statutory pre-emptive rights, of US\$9.2 million.

We plan to use the net proceeds of the Share Issue to finance further expansion of our chain of hypermarkets, as well as to continue the expansion of our convenience store operations and further development of our logistics capabilities. With respect to the net proceeds of the Share Issue that cannot be used for such purposes immediately, pending such uses, we plan to apply the net proceeds of the Share Issue to repay amounts outstanding under our revolving credit line facilities and then, in the course of 2008, use the amounts available under these facilities for the purposes described in the previous sentence.

## DIVIDEND POLICY

In accordance with our strategy, we expect to reinvest a substantial majority of our cash flow from operations into our existing business and new expansion opportunities for the foreseeable future. This reinvestment strategy means that we do not expect to make any dividend payments for the next several financial years.

The amount of dividend payments, if any, for any particular period will depend, among other things, on our financial position, results of operations, cash flows and future prospects.

Dividend payments, if any, must be recommended by our directors and approved by a general shareholders' meeting, neither of whom is under any obligation to recommend or approve any dividend payments. In particular, dividends may be declared only out of net profits for the first quarter, six months, nine months and/or annual results calculated under RAS, provided that the following conditions have been met:

- the Company's share capital has been paid in full;
- the value of the Company's net assets, calculated under RAS, is not less, and would not, as a result of the proposed dividend payment, become less than the sum of the Company's share capital, its reserve fund and the difference between the liquidation value and the par value of the Company's issued and outstanding preferred shares, if any;
- the Company has repurchased all shares from shareholders having the right to demand repurchase; and
- the Company is not, and would not become as the result of the proposed dividend payment, insolvent.

Dividends, if declared, are payable to our shareholders within 60 days of the declaration unless a shorter time period is set forth by the shareholders' decision declaring the dividends. For a further description, please refer to "*Description of Share Capital and Applicable Russian Legislation—Description of Share Capital—Dividends.*"

We anticipate that any dividends we may pay in the future with respect to the Shares represented by the GDRs will be declared and paid to the Depositary in Roubles and will be converted into US Dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the Rouble and the US Dollar. In addition, dividends that we may distribute to the Depositary will be subject to applicable Russian withholding taxes. For a detailed description of the applicable Russian withholding taxes see "*Taxation—Russian Tax Considerations.*"

## CAPITALIZATION

The following table sets out our consolidated cash and cash equivalents, short-term loans, including current portion of long-term loans, and capitalization, as of December 31, 2007, on an historical basis and as adjusted to give effect to the Share Issue (assuming that payment is made for all shares being subscribed for through the exercise of statutory pre-emptive rights) and the receipt of the net proceeds therefrom as if such Share Issue occurred on December 31, 2007. The following table should be read in conjunction with “*Selected Financial Information*,” “*Use of Proceeds*,” “*Operating and Financial Review*,” “*Business*” and the Consolidated Financial Statements, including the notes thereto, included elsewhere in this Prospectus.

	<b>As of December 31, 2007</b>	
	<b>Historical</b>	<b>As Adjusted<sup>(1)</sup></b>
	<i>(US\$ thousands)</i>	
<b>Cash and cash equivalents</b>	<u>120,959</u>	<u>585,111</u>
<b>Short-term loans and bonds, including current portion of long-term loans</b>	<u>496,047</u>	<u>496,047</u>
<b>Long-term loans and bonds, excluding the current portion of long-term loans</b>	160,780	160,780
<b>Shareholders' equity</b>		
Share capital	26	31
Share premium	179,427	464,147
Foreign currency translation reserve	41,103	41,103
Retained earnings	<u>206,405</u>	<u>206,405</u>
<b>Total shareholders' equity (excluding minority interest)</b>	<u>426,961</u>	<u>711,686</u>
<b>Total capitalization<sup>(2)</sup></b>	<u><b>587,741</b></u>	<u><b>872,466</b></u>

(1) Adjusted to give effect to the receipt of the net proceeds (after deducting aggregate fees and expenses relating to the Global Offering of approximately US\$16.1 million) from the Share Issue, but not adjusted for any other changes subsequent to December 31, 2007. We used the December 31, 2007 exchange rate between the Rouble and the US Dollar (RUB 24.5462 per US\$1.00) to convert the amount of the net proceeds from the Share Issue to be received by the Company in Roubles into US Dollars.

(2) Total of long-term loans and bonds, excluding the current portion, and total shareholders' equity.

Except as described below, there have been no material changes in the Group's capitalization since December 31, 2007.

On March 18, 2008, our subsidiary Tander entered into a RUB 1,000 million revolving credit line agreement with BSGV. Drawdowns under this facility may be made for a term not exceeding four months until March 18, 2009.

As of March 31, 2008, the aggregate outstanding amount of short-term loans and bonds increased to US\$565,454 thousand from US\$496,047 thousand as of December 31, 2007. As of the same date, the aggregate outstanding amount of long-term loans and bonds increased to US\$168,513 thousand from US\$160,780 thousand as of December 31, 2007.



## DILUTION

Interests of investors investing in the Shares or the GDRs will be diluted to the extent of the difference between the offer price per Share or per GDR and the net tangible book value per Ordinary Share or per GDR, respectively, following the completion of the Global Offering and the Share Issue. Net tangible book value per Ordinary Share represents the amount of the Group's equity attributable to equity holders of the parent less intangible assets, divided by the number of its Ordinary Shares issued and outstanding at the relevant date.

Investors purchasing Shares or GDRs in the Global Offering will incur immediate and substantial dilution upon the completion of the Share Issue. The Group's net tangible book value was US\$425.9 million or US\$5.91 per Ordinary Share as of December 31, 2007. Assuming the issuance by the Company of 11,300,000 New Shares had occurred on December 31, 2007 at an open subscription price per New Share of US\$42.50, the net tangible book value after the issuance of the New Shares would have been US\$710.8 million or US\$8.5 per Ordinary Share as of December 31, 2007. Accordingly, upon the completion of the Share Issue (assuming the full placement of the New Shares), investors who purchase Shares or GDRs will suffer immediate and substantial dilution. The following table illustrates this dilution as if the Share Issue occurred on December 31, 2007.

	<i>(in US\$)</i>
Offer price per Share	42.50
Net tangible book value per Ordinary Share as of December 31, 2007	5.9
Increase in net tangible book value per Ordinary Share attributable to the Share Issue	2.6
Net tangible book value per Ordinary Share after the Share Issue	<u>8.5</u>
<b>Dilution per Ordinary Share to new investors</b>	<u>34.0</u>
<b>Dilution per GDR to new investors</b>	<u>6.8</u>

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The table below shows our selected consolidated audited financial information as of and for the years ended December 31, 2005, 2006 and 2007 and has been derived from our Consolidated Financial Statements included elsewhere in this Prospectus. The selected financial information should be read in conjunction with “*Operating and Financial Review*” and our Consolidated Financial Statements included elsewhere in this Prospectus.

Our financial statements have been prepared in accordance with IFRS. Although our consolidated financial position and results of operations are presented in US Dollars, the presentation currency for IFRS purposes, investors in the Shares or the GDRs should not construe those translations as a representation that those amounts could be converted from one currency to another at any particular rate or at all.

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
<b>Consolidated income statement data</b>			
Revenue	1,577,672	2,505,030	3,676,559
Cost of sales	<u>(1,311,072)</u>	<u>(2,047,997)</u>	<u>(2,946,515)</u>
Gross profit	266,600	457,033	730,044
Selling expenses	(14,519)	(19,938)	(29,488)
General and administrative expenses	(188,223)	(341,383)	(537,353)
Investment income	9	1,322	640
Finance costs	(12,881)	(14,356)	(36,101)
Other income	901	2,127	5,005
Other expenses	<u>(1,857)</u>	<u>(3,340)</u>	<u>(2,631)</u>
Profit before tax	50,030	81,465	130,116
Income tax expense	<u>(12,517)</u>	<u>(23,500)</u>	<u>(32,726)</u>
Profit for the year	<u>37,513</u>	<u>57,965</u>	<u>97,390</u>
Attributable to equity holders of the parent	37,513	57,420	96,549
	<b>As of December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
<b>Consolidated balance sheet data</b>			
Cash and cash equivalents	45,771	89,789	120,959
Total assets	405,114	890,204	1,620,020
Short-term debt (including finance leases and current portion of long-term debt)	77,373	167,135	509,190
Long-term debt (including finance leases and excluding current portion of long-term debt)	82,817	89,346	183,444
Total liabilities	354,916	584,965	1,191,673
Total equity	50,198	305,239	428,347
	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
<b>Consolidated cash flow data</b>			
Net cash generated from operating activities	33,624	85,983	242,355
Net cash used in investing activities	(78,654)	(301,552)	(568,698)
Net cash generated from financing activities	72,373	258,712	354,832
	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Other financial data</b>			
Gross margin (%) <sup>(1)</sup>	16.9	18.2	19.9
EBITDA (US\$ in thousands) <sup>(2)</sup>	78,018	123,586	219,243
EBITDA margin (%) <sup>(3)</sup>	4.9	4.9	6.0
Net margin (%) <sup>(4)</sup>	2.4	2.3	2.6

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Capital expenditures (US\$ in thousands) <sup>(5)</sup>	87,068	314,843	606,478
Net debt to EBITDA ratio <sup>(6)</sup>	1.47	1.35	2.61

	<b>As of or for the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Operational data</b>			
Total selling space, excluding hypermarkets, as of December 31 (in thousands of square meters) <sup>(7)</sup>	383	523	640
Number of convenience stores as of December 31	1,500	1,893	2,194
Number of hypermarkets as of December 31	—	—	3
Average selling space of convenience stores as of December 31 (square meters)	255	276	292
Number of tickets, excluding hypermarkets (in millions) <sup>(8)</sup>	469.3	640.1	764.8
Average ticket, excluding hypermarkets (US\$) <sup>(9)</sup>	3.31	3.84	4.76
Number of employees as of December 31	31,593	44,295	58,978
Like for like sales growth in Roubles (%) <sup>(10)</sup>	n/a	13.2	13.9

(1) Gross margin consists of gross profit as a percentage of revenue.

(2) EBITDA consists of profit for the year plus net finance costs (equal to finance costs minus investment income), income tax expense and depreciation and amortization. EBITDA is not a measurement of performance or liquidity under IFRS or US GAAP and should not be considered by investors in isolation or as a substitute for a measure of profit, or as an indicator of our operating performance or cash flows from operating activities as determined in accordance with IFRS or US GAAP. We have presented this supplemental measure because it is used by us in managing our business. In addition, we believe that EBITDA is commonly reported by comparable businesses and used by investors in comparing the performance of businesses on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred). EBITDA may not be comparable to similarly titled measures disclosed by other companies and investors should not use this non-GAAP measure as a substitute for the figures provided in our Consolidated Financial Statements.

The following table presents a reconciliation of EBITDA to profit for the year for the periods indicated:

	<b>For the year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in thousands)</i>		
Profit for the year	37,513	57,965	97,390
Net finance costs (finance costs minus investment income)	12,872	13,034	35,461
Income tax expense	12,517	23,500	32,726
Depreciation	15,056	28,949	53,102
Amortization	60	138	564
EBITDA	<u>78,018</u>	<u>123,586</u>	<u>219,243</u>

(3) EBITDA margin represents EBITDA as a percentage of revenue.

(4) Net margin consists of profit for the year as a percentage of revenue.

(5) Capital expenditures are calculated as additions to property, plant and equipment as presented in our consolidated cash flow statements.

(6) Net debt is calculated as the sum of short-term and long-term loans (including obligations under finance leases) minus cash and cash equivalents.

(7) Total selling space of convenience stores includes areas leased to third parties. Total selling space of our three hypermarkets as of December 31, 2007 was 17,685 square meters, of which areas equal to 6,095 square meters were designated as selling space to be leased to third parties.

(8) Number of tickets is the aggregate number of separate purchases that are made at all of our stores during the year.

(9) Average ticket is calculated as described in “*Presentation of Financial and Other Information—Presentation of Operating Information.*”

(10) Like for like sales growth is calculated as described in “*Presentation of Financial and Other Information—Presentation of Operating Information.*”

## OPERATING AND FINANCIAL REVIEW

*The following discussion and analysis of our operating and financial results and prospects is based on our Consolidated Financial Statements. You should read this section in conjunction with the Consolidated Financial Statements, including the notes thereto, as well as our other financial information included elsewhere in this Prospectus.*

### Overview

We operate convenience stores and hypermarkets in the Russian Federation under the “Magnit” brand name. We believe that we are the largest food retailer in Russia by the number of stores that we operate and one of the largest by volume of sales. Based in Krasnodar, in the Southern Federal District, we have grown rapidly in recent years, expanding our operations to five out of the seven federal districts in Russia with store locations in more than 700 cities and towns. As of December 31, 2007, we operated 2,194 convenience stores with an aggregate selling space of approximately 640,068 square meters, three hypermarkets with an aggregate selling space of approximately 11,590 square meters and eight distribution centers with an aggregate warehousing space of approximately 137,561 square meters. As of the same date, more than 70% of our convenience stores and two of our three hypermarkets were located in cities and towns with a population of less than 500,000 people, where we believe there is generally less competition from the other major Russian food retailers, a larger proportion of low and middle-income consumers who are core target customers of our convenience stores, and rent and labor expenses are lower than in the largest Russian cities. As of March 15, 2008, we had increased the number of our convenience stores to 2,219 and the number of our hypermarkets to five.

Our convenience stores offer approximately 1,300 to 4,300 SKUs and our hypermarkets offer approximately 9,500 to 13,200 SKUs. As of December 31, 2007, our convenience stores and hypermarkets had, on average, 292 square meters and 3,863 square meters of selling space, respectively.

Our convenience stores principally target low and middle-income consumers living within 500 meters of each store. We believe that our convenience stores offer customers low prices (relative to traditional and modern retail formats other than hypermarkets), an attractive product mix and a functional store layout and are conveniently located close to customers’ homes. As of March 15, 2008, we owned 566 of our convenience stores and leased the remaining 1,653 stores. We expect that the proportion of convenience stores that we own will remain at approximately the same level in the near and medium term.

Our hypermarkets target customers who live in the areas near our hypermarkets as well as consumers who live farther away but may travel by car to one of our hypermarkets to do their shopping. We opened our first hypermarket in Krasnodar in October 2007. Most of our hypermarkets are located in towns with populations of less than 200,000 where they currently face little or no competition from other hypermarkets. Most of our hypermarkets are located in or near the center of the relevant city or town and are therefore easily accessible. In comparison with our convenience stores, our hypermarkets offer a much larger selection of products, including a significantly greater share of non-food and long shelf-life food products. As of March 15, 2008, we owned one out of five hypermarkets which we operated and were in the process of receiving title to the remaining four hypermarkets. As of that date, we also owned two out of five land plots on which our hypermarkets are located, with two of the remaining three land plots leased from municipal authorities on a long-term basis and the remaining land plot was in the process of being transferred into our ownership by the company that built the hypermarket for us. As of that date, an additional 29 hypermarkets were under construction and we owned an additional 15 land plots and leased on a long-term basis one additional land plot on which we currently plan to construct hypermarkets.

Our in-house logistics system consists principally of eight distribution centers located in four out of the five federal districts in which we operate and our own fleet of 899 delivery trucks (as of March 15, 2008). This system allowed us to distribute through our distribution centers goods that we estimate accounted for approximately 71% of our cost of goods sold in 2007.

In 2007, we had total revenue of US\$3,676.6 million, EBITDA of US\$219.2 million and profit for the year of US\$97.4 million. Our gross margin, EBITDA margin and net margin were 19.9%, 6.0% and 2.6%, respectively, in 2007.

### Significant Factors Affecting Results of Operations

We believe that the following factors significantly affected our results of operations in the years ended December 31, 2005, 2006 and 2007, and/or will have a significant impact on our results of operations in the future.

### ***Strength of the Russian Economy and Growth in Consumer Spending***

Since all of our stores are located in the Russian Federation and we currently have no plans to expand outside of the Russian Federation, our operations are substantially affected by Russian macroeconomic conditions. While there have been improvements in recent years in the economic situation in Russia, its economy continues to display certain characteristics of an emerging market, including, for instance, a volatile securities market and inflation rates higher than those in more developed countries. See “*Risk Factors—Risks Relating to Russia—Economic risks.*”

The following table sets out key Russian economic indicators for the years ended December 31, 2005, 2006 and 2007:

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Nominal gross domestic product (RUB in billions)	21,620.1	26,781.1	n/a
Surplus of consolidated budget of the Russian Federation (RUB in billions)	1,759.0	2,250.6	n/a
International reserves (US\$ in billions) <sup>(1)</sup>	182.2	303.7	476.4
Inflation (%) <sup>(2)</sup>	10.9	9.7	9.0
Nominal appreciation of the Rouble against the US dollar (year-on-year) (%) <sup>(3)</sup>	1.9	4.0	6.3
Real appreciation of the Rouble against the US dollar (year-on-year) (%) <sup>(3)</sup>	10.8	10.7	12.8

Sources: CBR and Rosstat

- (1) International reserves are highly liquid assets held by the CBR and the government of the Russian Federation. The international reserve assets are made up of foreign currency reserves, monetary gold, special drawing rights (SDRs), reserve position at the International Monetary Fund and other reserve assets.
- (2) Inflation is measured as the percentage change in the consumer price index.
- (3) Real appreciation is distinguished from nominal appreciation because the former also takes into account inflation in Russia and the United States, as well as certain other macroeconomic parameters that are calculated by the CBR.

In 2007, Russia enjoyed its ninth consecutive year of economic expansion. The continuing increase of domestic demand from the depressed levels immediately following the financial crisis of August 1998, along with high market prices for key export commodities, particularly oil and gas, has sustained economic growth and led to an increase in foreign currency reserves. The significant cash inflows resulting from exports of commodities at high prices also contributed to the strengthening of the Rouble against the US dollar. Statistical data from Rosstat shows that both the nominal and real GDP in Russia has increased while the population itself has decreased every year during the 1999 to 2007 period.

The following table shows historical year-on-year growth of real GDP in Russia in the five years ended December 31, 2007.

	<b>Year ended December 31,</b>				
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Real GDP growth	7.3	7.2	6.4	6.7	n/a

Source: Rosstat

The rapid growth of the Russian economy contributed to significant growth in both disposable income of the Russian population and consumer spending during the years ended December 31, 2005, 2006 and 2007. Average disposable income and consumer spending by households (in constant prices) in Russia increased by approximately 11.1% and 8.6%, respectively, per year between January 1, 2000 and December 31, 2006. We believe that the growth of the Russian economy and the appreciation of the Rouble against the US dollar, coupled with significant increases in disposable income and consumer spending, significantly contributed to increases in our average ticket in the years ended December 31, 2005, 2006 and 2007 and, consequently, to increases in our retail revenue during these years. We also believe, however, that as the disposable income of our customers increases, their preferences may also change. Therefore, we need to adjust the assortment of products in our stores to reflect such changed preferences

or risk losing some of these customers to other formats of stores, such as supermarkets. See “*Risk Factors—Risks Relating to Our Business and Industry—Changes in customer preferences may have a material adverse effect on our sales.*”

We expect that the state of the Russian economy and the level of disposable income and consumer spending will continue to affect our consolidated results of operations. For this reason, any economic downturn in Russia would be likely to have a negative impact on our results of operations.

### ***Rapid Expansion of Our Chain of Convenience Stores***

During the years ended December 31, 2005, 2006 and 2007, we continued to expand our chain of retail stores. The number of convenience stores we operated increased from 1,014 as of December 31, 2004 to 1,500 as of December 31, 2005, 1,893 as of December 31, 2006 and 2,194 as of December 31, 2007. This significant increase in the size of our chain of convenience stores was the principal reason for the increase in our retail revenue in these years, which increased from US\$1,522.6 million in the year ended December 31, 2005 to US\$2,461.0 million in the year ended December 31, 2006 and then further increased to US\$3,647.6 million in the year ended December 31, 2007 (of which US\$3,639.2 million was retail revenue generated by our convenience stores and the rest by our hypermarkets). The increased scale of our operations also improved our purchasing power and allowed us to achieve reductions in the ratio of costs of goods sold to total revenue and to significantly increase the amount of rebates and promotional bonuses received from suppliers, both in absolute terms and as a percentage of total revenue, further reducing our cost of sales as a percentage of revenue.

### ***Hypermarket Business Expansion***

We opened our first hypermarket on October 12, 2007 in Krasnodar. As of December 31, 2007, we operated three hypermarkets with an aggregate selling area (excluding selling area designated as to be leased to third parties) of 11,590 square meters. As of March 15, 2008, the number of our hypermarkets increased to five with an aggregate selling area (excluding selling area designated as to be leased to third parties) of approximately 19,990 square meters, with additional 29 hypermarkets under construction as of that date.

Following our decision to expand our operations through opening a large number of hypermarkets throughout the European part of Russia, we incurred large capital expenditures related to the acquisition of land plots, construction and purchases of machinery and equipment for these hypermarkets. In the year ended December 31, 2007, our capital expenditures (consisting of additions to property, plant and equipment) totaled US\$606.5 million, of which a large proportion was attributable to our hypermarket business. See “—*Liquidity and Capital Resources—Capital Expenditures*”. We expect to have large capital expenditures in the near term as we continue to implement our hypermarket business expansion strategy.

The opening of three hypermarkets by December 31, 2007 increased our retail revenue in that year by US\$8.4 million.

### ***Shift to Increased Ownership of Convenience Stores***

As of December 31, 2005, 2006 and 2007, we had 174, 456 and 520 convenience stores, respectively, that we owned and 1,326, 1,437 and 1,674 stores, respectively, that we leased. The percentage of our convenience stores that we owned increased from 11.6% as of December 31, 2005 to 24.1% as of December 31, 2006, but then decreased slightly to 23.7% as of December 31, 2007. The large increase in the percentage of stores that we owned between December 31, 2005 and December 31, 2006 was due to our use of a large proportion of the net proceeds from our initial public offering completed in May 2006 on purchases of existing or new convenience stores and construction of new convenience stores in 2006.

In the past, our reliance on leased premises has enabled us to expand quickly, with a relatively small amount of capital. However, beginning in the year ended December 31, 2004, we made a change in our convenience store expansion strategy and started acquiring the real estate on which many of our stores operated, as well as land plots in suitable locations for new convenience stores, particularly in existing markets where we had already achieved high penetration. Our shift to increased ownership of convenience stores has provided some protection from commercial real estate rent increases because the proportion of our convenience stores affected by such increases in our overall convenience store portfolio decreased significantly in 2006 and 2007 in comparison with 2005. The larger proportion of convenience stores under our ownership also allowed us to decrease the impact of disruptions resulting from situations when we were unable to renew leases for premises on which our convenience stores operated on commercially acceptable terms.

The process of opening new convenience stores that we own is much more capital intensive than the opening of such stores on leased premises. Therefore, our capital expenditures have increased significantly due to this change in strategy. As a result, while we have continued to open several hundred new stores per year, the rate of addition of new convenience stores has slowed down (from 47.9% in 2005 relative to 2004 to 26.2% in 2006 relative to 2005 and to 15.9% in 2007 relative to 2006).

Purchases of existing or new convenience stores and construction of new convenience stores in 2007 were financed principally from net cash generated by operating activities. We expect that net cash generated by operating activities will be the principal source of financing for purchases or construction of our convenience stores in the near future, that the absolute number of convenience stores that we own will continue to increase and that the ratio of owned convenience stores to the total number of our convenience stores will remain at approximately the levels during 2006 and 2007 in the near and medium term.

### ***Expansion of the Range of Private Label Products***

In the years ended December 31, 2005, 2006 and 2007, our sales of private label products represented 8.2%, 10.9% and 12.1% of our retail revenue, respectively. Because gross margins on sales of private label products are, on average, higher than on other products, the increases in the proportion of revenue from private label products to our total retail revenue contributed to the growth in our gross margins in the years ended December 31, 2006 and 2007. As the number of SKUs sold in our hypermarkets is much larger than the number of SKUs sold in our convenience stores and a larger share of SKUs sold in our hypermarkets consists of non-food products, the opening of our first hypermarkets in 2007 made it possible for us to significantly expand the range of private label products and, particularly, non-food private label products offered in our stores. Accordingly, we intend to increase the total number of private label SKUs, the number of private label non-food SKUs sold in our hypermarkets and the proportion of revenue from private label products in our total retail revenue in the near future, which we believe will continue to have a positive effect on our gross margins in the near term.

### ***Further Development of the Logistics System***

Our logistics system enables us to operate across a wide geographic area, to reduce our transportation costs and to manage our merchandise efficiently. We operate our own distribution centers, which in 2007 processed goods that we estimate accounted for approximately 71% of our cost of goods sold, use an automated stock replenishment system and maintain our own fleet of delivery trucks. We believe that our distribution centers and fleet of delivery trucks have enabled us to centralize our purchasing and obtain favorable purchasing terms and reduce delivery costs from suppliers.

Between January 1, 2005 and December 31, 2007, we increased the number of our distribution centers, which constitute the backbone of our logistics system, from four to eight by opening modern automated distribution centers in Engels in the Volga Federal District, Bataysk in the Southern Federal District, Ivanovo in the Central Federal District and Chelyabinsk in the Urals Federal District. The total warehousing space in our distribution centers increased from 45,796 square meters as of December 31, 2004 to 137,561 square meters as of December 31, 2007. In addition to increasing the number of our distribution centers and their total capacity, we installed low-temperature storage modules at all of our distribution centers other than the distribution center in Tolyatti by the end of 2007, allowing us to significantly expand our capacity to store fresh, frozen and chilled food. We also increased our fleet of delivery trucks used to transport goods from suppliers to the distribution centers and from the distribution centers to our stores from 173 as of December 31, 2004 to 802 as of December 31, 2007 and 899 as of March 15, 2008.

The increases in the number of our distribution centers and their total capacity, the installation of low-temperature storage modules at most distribution centers and the growth of our fleet of delivery trucks allowed us to significantly increase the share of goods delivered to our stores through our distribution centers. This share (calculated as the percentage of cost of goods sold of goods delivered to our stores through our distribution centers to our total cost of goods sold) increased from approximately 57% in the year ended December 31, 2005 to approximately 71% in the year ended December 31, 2007. Our target is to increase this share to approximately 85% in the medium term, which we believe is the optimal level for the share of goods delivered to our stores through our distribution centers, as further increases are unlikely to result in any significant cost savings. We believe that increasing the share of goods distributed through our own logistics system would enable us to achieve a lower cost base through a reduction in distributors' markups and allows us to achieve higher discounts from suppliers as a result of

centralized purchasing and delivery and, therefore, to increase our profitability. Our in-house logistics system also allows us to maintain a significant degree of independence from distributors and third party transportation service providers, to have more control over the timing of deliveries to our stores and to manage our inventory more effectively.

### ***Inflation and Appreciation of the Rouble against the US Dollar***

According to the CBR, Russia continued to experience relatively high levels of inflation during the years under review with increases in the consumer price index of 10.9% in 2005, 9.7% in 2006 and 9.0% in 2007. The CBR data also shows that during the same period, the Rouble continued to appreciate against the US Dollar with the nominal appreciation rate increasing from 1.9% in 2005 to 4.0% in 2006 and 6.3% in 2007. Our results of operations were affected by these two trends as the rates of increase in our revenues and costs, presented in US Dollars, would have been significantly lower had it not been for the impact of inflation and the appreciation of the Rouble against the US Dollar.

### ***Wage Inflation***

The average annual salary of our employees, calculated as payroll expenses for the year divided by the average number of our employees during that year (calculated as the average of daily numbers of our employees), increased by US\$467, or 12.9%, in the year ended December 31, 2006 compared to the prior year and by US\$920, or 22.5% in the year ended December 31, 2007 compared to the prior year. Our average annual salary measured in Roubles increased by RUB 8,931, or 8.8%, in the year ended December 31, 2006 compared to the prior year and by RUB 16,965, or 15.3% in the year ended December 31, 2007 compared to the prior year. Therefore, while the increase in the average annual salary of our employees in 2006 measured in Roubles was slightly below the rate of inflation in Russia for that year (9.7%), the increase in the average annual salary of our employees in 2007 significantly exceeded the rate of inflation in that year (9.0%). Wage inflation was one of the principal reasons why our general and administrative expenses in 2006 and 2007 increased at a faster rate than our revenue during the same periods. We expect the salaries of our employees to continue to increase in the near term.

### ***Rapid Growth of Expenses on Rent and Utilities***

Our expenses on rent and utilities increased by 105.8% in the year ended December 31, 2006 compared to the prior year and by 58.4% in the year ended December 31, 2007 compared to the prior year, which, particularly in 2006, significantly exceeded the rate of growth in our revenues. These large increases in our expenses on rent and utilities were another principal reason why our general and administrative expenses increased at a faster rate than our revenue during 2006 and 2007.

Rapid growth of our expenses on rent and utilities was caused primarily by significant increases in the total space of our leased convenience stores (from 481,668 square meters as of December 31, 2005 to 573,219 square meters as of December 31, 2006 and 699,491 square meters as of December 31, 2007); significant increases in total space of other leased premises (from 65,313 square meters as of December 31, 2005 to 98,262 square meters as of December 31, 2006 and 146,683 square meters as of December 31, 2007); large increases in rents charged by landlords and in tariffs set by utilities service providers, in part driven by inflation and the appreciation of the Rouble against the US Dollar; as well as higher energy consumption per square meter of leased space due to the continuing installation of low-temperature storage equipment in stores and distribution centers. We believe that these increases in rent and utilities payments on a per square meter basis generally exceeded the rate of inflation in Russia in 2006 and 2007. We expect our rent and utilities expenses to continue to increase in the near term.

Large increases in commercial real estate rent were the principal reason behind our shift in strategy to increased ownership of convenience stores. See “—*Shift to Increased Ownership of Convenience Stores*” above.

### ***Seasonality***

We experience some seasonal fluctuations in our operations, such as a significant increase in sales during December, prior to the New Year period, as well as a less significant increase in sales in July and August as many holiday-makers travel to the area around the Black Sea and other areas in the south of Russia where many of our convenience stores are located. Purchases of meat products tend to be lower in the spring as some of our customers observe periods of religious fasting, while the demand for wheat-based products generally increases during this period. The sale of seasonal products also affects our quarterly results.



## Results of Operations

The following table sets out selected financial information derived from our Consolidated Financial Statements and shows our results of operations as a percentage of revenue for the applicable year.

	Year ended December 31, 2005	Percentage of total revenue	Year ended December 31, 2006	Percentage of total revenue	Year ended December 31, 2007	Percentage of total revenue
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>
Revenue	1,577.7	100.0	2,505.0	100.0	3,676.6	100.0
Cost of sales	(1,311.1)	(83.1)	(2,048.0)	(81.8)	(2,946.5)	(80.1)
Gross profit	266.6	16.9	457.0	18.2	730.1	19.9
Selling expenses	(14.5)	(0.9)	(19.9)	(0.8)	(29.5)	(0.8)
General and administrative expenses	(188.2)	(11.9)	(341.4)	(13.6)	(537.4)	(14.6)
Investment income	0.0	0.0	1.3	0.1	0.6	0.0
Finance costs	(12.9)	(0.8)	(14.4)	(0.6)	(36.1)	(1.0)
Other income	0.9	0.1	2.1	0.1	5.0	0.1
Other expenses	(1.9)	(0.1)	(3.3)	(0.1)	(2.6)	(0.1)
Profit before tax	50.0	3.3	81.4	3.3	130.1	3.5
Income tax expense	(12.5)	(0.8)	(23.5)	(0.9)	(32.7)	(0.9)
Profit for the year	37.5	2.5	57.9	2.4	97.4	2.6

### *Explanation of Key Income Statement Items*

#### *Revenue*

We derive revenue from the sale of food and non-food products at our stores (retail revenue) and at our distribution centers (wholesale revenue). Retail revenue is received in cash. See “*Risk Factors—We are exposed to certain risks in connection with the substantial use of cash in our operations*”. We reduced our wholesale operations significantly in the second half of 2007 and wound them down almost completely by the end of 2007. Revenue, which is referred to in the discussion below as total revenue, is measured at the fair value of the consideration received or receivable, net of value added tax and less estimated customer returns. Revenue is translated from Roubles into US Dollars at the Average Exchange Rate. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

#### *Cost of Sales and Gross Profit*

Cost of sales includes cost of goods sold, which is the actual cost of products purchased from suppliers, transportation expenses (other than transportation expenses related to delivery of goods from our distribution centers to our stores by third party transportation service providers) and losses due to inventory shortages (which are losses resulting from products being lost, stolen, damaged or otherwise defective), reduced by rebates and promotional bonuses received by us from suppliers.

Gross profit is equal to total revenue less cost of sales.

#### *Selling Expenses*

Our selling expenses in the years under review consisted primarily of expenses related to: (i) packaging and raw materials, which include all types of packaging materials for products, such as fruits and vegetables, for which producers have not provided their own packaging, cash register tape and thermal paper rolls; (ii) depreciation of delivery trucks owned by our subsidiaries and operated by our transportation subsidiary LLC Selta and related transportation services infrastructure; (iii) fuel; (iv) transportation expenses related to delivery of goods from our distribution centers to our stores by third party transportation service providers; and (v) advertising.

### *General and Administrative Expenses*

Our general and administrative expenses in the years under review consisted primarily of expenses related to: (i) payroll; (ii) rent (net of rent income received from third party sub-lessees) and utilities; (iii) payroll related taxes (the unified social tax); (iv) depreciation (other than depreciation of delivery trucks owned by our subsidiaries and operated by our transportation subsidiary LLC Selta and related transportation services infrastructure); (v) repair and maintenance; (vi) taxes, other than income tax, which include property tax and other federal and local taxes; (vii) bank services, mainly relating to cash handling; (viii) security services, the performance of which is outsourced to third parties; (ix) provision for unused vacation; (x) bad debt provision related to wholesale operations; and (xi) other expenses (including amortization).

### *Investment Income*

Investment income includes interest on loans, which we granted principally to realtors who purchased land or premises for our stores, interest income or interest on deposit from related parties and other investment revenue.

### *Finance Costs*

Finance costs include interest on bonds issued in November 2005 and March 2007, interest on various short- and long-term loans and interest on finance leases for a significant number of our delivery trucks.

### *Other Income*

Other income in the years under review consisted of income related to: (i) release of allowance for previous-year tax risks; (ii) assignment of claims; and (iii) other miscellaneous income.

### *Other Expenses*

Other expenses in the years under review consisted of expenses related to: (i) penalties and fines, (ii) loss on sale of fixed assets, and (iii) other miscellaneous expenses.

### *Profit before Tax*

Profit before tax is equal to the sum of gross profit, investment income and other income less the sum of selling expenses, general and administrative expenses, finance costs and other expenses.

### *Income Tax Expense*

Our principal tax liability, as shown in the Consolidated Financial Statements, is corporate income tax.

We pay income taxes in accordance with the laws of the Russian Federation. The statutory tax rate was 24% in each of the years ended December 31, 2005, 2006 and 2007.

Our income tax expense is based on the taxable profit of the Company and each of its subsidiaries for each year and takes into account deferred tax attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The Company and each of its subsidiaries separately pays taxes, on an unconsolidated basis, under Russian tax law, and accordingly losses on one entity in a tax reporting period may not be offset against gains on another entity in that period.

### *Profit for the Year*

Profit for the year is profit before tax reduced by income tax expense.

### ***Year Ended December 31, 2007 Compared with the Year Ended December 31, 2006***

#### *Revenue*

Our total revenue increased by US\$1,171.6 million, or 46.8%, from US\$2,505.0 million in the year ended December 31, 2006 to US\$3,676.6 million in the year ended December 31, 2007.

The following table sets out our retail and wholesale revenue in the years ended December 31, 2006 and 2007, the share of retail and wholesale revenue in total revenue in each of these two years and the percentage change in retail and wholesale revenue between these two years.

	<b>Year ended December 31, 2006</b>	<b>Share of total revenue</b>	<b>Year ended December 31, 2007</b>	<b>Share of total revenue</b>	<b>Percentage change</b>
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>		<i>(%)</i>
Retail revenue	2,461.0	98.2	3,647.6	99.2	48.2
Wholesale revenue	44.0	1.8	29.0	0.8	(34.1)
<b>Total revenue</b>	<b>2,505.0</b>	<b>100.0</b>	<b>3,676.6</b>	<b>100.0</b>	46.8

Our retail revenue, which accounted for 98.2% of our total revenue in the year ended December 31, 2006 and 99.2% of our total revenue in the year ended December 31, 2007, increased by US\$1,186.6 million, or 48.2%, from US\$2,461.0 million in the year ended December 31, 2006 to US\$3,647.6 million in the year ended December 31, 2007.

The following table sets out some key operating performance indicators relevant to retail revenue in the years ended December 31, 2006 and 2007 and the percentage change in these key operating performance indicators between these two years. See “*Presentation of Financial Information and Other Information*” for information on the method of calculation of these indicators.

	<b>As of or for the year ended December 31,</b>		<b>Percentage change</b>
	<b>2006</b>	<b>2007</b>	
			<i>(%)</i>
Total selling space, excluding hypermarkets, as of December 31 (thousands of square meters) <sup>(1)</sup>	523	640	22.4
Number of stores, excluding hypermarkets, as of December 31 <sup>(2)</sup>	1,893	2,194	15.9
Average selling space, excluding hypermarkets, as of December 31 (square meters)	276	292	5.8
Tickets per square meter of selling space, including hypermarkets <sup>(3)</sup>	3.9	3.6	(7.8)
Average ticket, excluding hypermarkets (US\$) <sup>(4)</sup>	3.84	4.76	24.0

(1) Total selling space of convenience stores includes areas leased to third parties. Total selling space of our three hypermarkets as of December 31, 2007 was 17,685 square meters, of which 6,095 square meters were designated as selling space to be leased to third parties.

(2) In addition, we had three hypermarkets as of December 31, 2007.

(3) Tickets per square meter of selling space was calculated for each day of the relevant year with the total number of purchases made at all of our stores during such day divided by the total selling space of our stores as of that day. The number used in the table above is the average of 365 numbers calculated on a daily basis.

(4) Average ticket is calculated by dividing the total amount of retail revenue at all of our convenience stores during the relevant year by the number of tickets in that year. Average ticket including both convenience stores and hypermarkets was US\$4.77 in 2007.

One of the principal reasons for the increase in our retail revenue in the year ended December 31, 2007 was the increase in the aggregate selling space in our convenience stores, which increased by 22.4% as of December 31, 2007 in comparison with December 31, 2006. This increase was, in turn, driven by a 15.9% increase in the number of our convenience stores from 1,893 as of December 31, 2006 to 2,194 as of December 31, 2007 and a 5.8% increase in the average size of our convenience stores as of December 31, 2007 in comparison with December 31, 2006.

The increase in our retail revenue in the year ended December 31, 2007 was also driven by the increase in the average ticket at our convenience stores, which increased by 24.0% in 2007 in comparison with 2006. We believe that this increase was principally a result of improvements in our product mix due to increasing the share of fresh food products (such as dairy and bakery products, fruits and vegetables), ready-made meals produced in-store and other premium food products, the higher purchasing power of our customers in 2007 in comparison with 2006, which reflects an overall increase in disposable income of the Russian population, and the effects of inflation of 9.0% and the nominal appreciation of the Rouble against the US Dollar of 6.3% in 2007.

Our retail revenue in the year ended December 31, 2007 was also positively affected by the opening of three hypermarkets from October 12, 2007 through the end of the year, which collectively generated US\$8.4 million of retail revenue in the year ended December 31, 2007. We had no hypermarkets in operation prior to October 12, 2007.

The favorable impact of the increases in the selling space in our convenience stores and in the average ticket at our convenience stores and the opening of the first three hypermarkets in 2007 was partially offset by the decrease in tickets per square meter of selling space in our stores by 7.8% in 2007 in comparison with 2006. We believe that this decrease resulted, in part, from the larger average size of our stores and increasing competition from convenience stores and other store formats such as hypermarkets operated by our competitors. In addition, we believe that this decrease reflected in part changes in the shopping habits of our consumers as their income increases. We believe that, in general, more affluent customers tend to make fewer trips to our stores in order to reduce the amount of time they spend on grocery shopping, but purchase a larger amount of products during such trips. Accordingly, we believe that as customers' disposable incomes increase they are likely to visit our stores less frequently, but that the impact of this trend on our revenue is likely to be balanced by the increased average purchases made by such customers.

Our like for like retail revenue measured in Roubles increased by 13.9% in 2007 in comparison with 2006. We believe that this increase was principally a result of improvements in our product mix, higher purchasing power of our customers in 2007 in comparison with 2006, reflecting increased disposable income of the Russian population, and the effects of inflation in 2007. Like for like revenue measured in US Dollars increased by 21.1% during the same period. Data for calculating like for like retail revenue in both US dollars and Russian Roubles was extracted from our management accounts for 2006 and 2007 and, therefore, like for like retail revenue is not directly comparable to retail revenue calculated on the basis of IFRS financial information contained in our Consolidated Financial Statements.

Like for like retail revenue represents a comparison of the 2006 and 2007 retail revenue of stores that at the beginning of 2006 had been trading for at least six months and had not been closed down permanently, expanded or downsized by the end of 2007. According to our calculations, our new convenience stores generally achieve a level of customer traffic that approaches their average customer traffic at maturity by the end of the first six months of operations. The 1,021 stores included in our like for like sales analysis for 2006 and 2007 therefore only include stores that were opened on or before July 1, 2005 and were not subsequently closed, expanded or downsized. We calculate retail revenue (in Roubles) for the purposes of like for like sales analysis on the basis of the gross cash receipts of the relevant stores extracted from our management accounts for the relevant periods and net of VAT to arrive at retail revenue on a per store basis.

The like for like average ticket calculated on the basis of data from the 1,021 stores included in our like for like sales analysis for 2006 and 2007 and measured in US Dollars increased by 22.0% in 2007 in comparison with 2006. During the same period, however, the like for like number of tickets calculated on the basis of data from the same 1,021 stores decreased by 0.8%, which we believe was caused by increased competition and by changes in the shopping habits of customers with increasing disposable incomes, as discussed above.

Our wholesale revenue, which accounted for 1.8% of our total revenue in the year ended December 31, 2006 and 0.8% of our total revenue in the year ended December 31, 2007, decreased by US\$15.2 million, or 34.1%, from US\$44.0 million in the year ended December 31, 2006 to US\$29.0 million in the year ended December 31, 2007. We historically viewed our wholesale operations as a non-core part of our business and, in 2007, we decided to wound them down. Accordingly, we reduced our wholesale operations significantly in the second half of 2007 and wound them down almost completely by the end of that year.

### Cost of Sales and Gross Profit

The following table sets out cost of sales, gross profit and gross margin in the years ended December 31, 2006 and 2007, including a split for retail and wholesale operations and the percentage change in cost of sales and gross profit.

	Year ended December 31,		Percentage change (%)
	2006	2007	
	<i>(US\$ in millions, except percentages)</i>		
<b>Cost of sales</b>			
Retail	2,012.8	2,919.8	45.1
Wholesale	35.2	26.7	(24.1)
<b>Total cost of sales</b>	<b>2,048.0</b>	<b>2,946.5</b>	43.9
<b>Gross profit</b>			
Retail	448.2	727.8	62.4
Wholesale	8.8	2.3	(73.9)
<b>Total gross profit</b>	<b>457.0</b>	<b>730.1</b>	59.8
<b>Gross margin<sup>(1)</sup></b>			
Retail	18.2%	20.0%	
Wholesale	20.0%	7.9%	
<b>Total gross margin</b>	18.2%	19.9%	

(1) Gross margin is calculated as gross profit divided by revenue, expressed as a percentage.

The increase in total gross profit in 2007 compared to 2006 resulted solely from the increase in gross profits arising from retail sales. Cost of sales in our retail business increased more slowly than total revenue in 2007 as compared to 2006, which led to increases in our gross margins in 2007.

The following table sets out further details of our cost of sales in the years ended December 31, 2006 and 2007, the percentage of total revenue that each of the components of our cost of sales represented in these two years and the percentage change in each of the components of our cost of sales between these two years.

	Year ended December 31, 2006	Percentage of total revenue	Year ended December 31, 2007	Percentage of total revenue	Percentage change
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(%)</i>
Cost of goods sold	2,037.9	81.4	2,959.3	80.5	45.2
Transportation expenses <sup>(1)</sup>	35.8	1.4	60.0	1.6	67.6
Losses due to inventory shortages <sup>(2)</sup>	9.0	0.4	17.2	0.5	91.1
Rebates and promotional bonuses received from suppliers	(34.7)	(1.4)	(90.0)	(2.4)	159.4
<b>Total cost of sales</b>	<b>2,048.0</b>	<b>81.8</b>	<b>2,946.5</b>	<b>80.1</b>	43.9

(1) Excludes transportation expenses related to delivery of goods from our distribution centers to our stores by third party transportation service providers.

(2) Losses due to inventory shortages are losses resulting from products being lost, stolen, damaged or otherwise defective.

The increase in our gross margin was principally the result of the following factors:

- a decrease in the ratio of cost of goods sold to total revenue from 81.8% in the year ended December 31, 2006 to 80.1% in the year ended December 31, 2007. We believe this decrease was principally due to our improved purchasing power resulting from the significantly increased scale of our operations in the year ended December 31, 2007, as well as due to the distribution of a larger proportion of goods through our distribution centers in 2007 in comparison with 2006, allowing us to reduce exposure to third party distributors and their significant mark-ups on products we buy from them. Another reason for this decrease was the increase in the proportion of deliveries from third party facilities to our stores or to our distribution centers that were made by our transportation subsidiary LLC Selta in 2007, which, in many cases, allowed us to obtain lower prices from producers or distributors;

- a large increase in rebates and promotional bonuses received from suppliers as a percentage of total revenue, from 1.4% in the year ended December 31, 2006 to 2.4% in the year ended December 31, 2007, also resulting principally from our improved purchasing power; and
- an increase in the share of retail revenue attributable to the sale of private label products on which we generally earn higher gross margins, from 10.9% of retail revenue in the year ended December 31, 2006 to 12.1% of retail revenue in the year ended December 31, 2007.

The impact of these factors on our gross margin was partially offset by:

- an increase in transportation expenses as a percentage of total revenue (from 1.4% in the year ended December 31, 2006 to 1.6% in the year ended December 31, 2007) due to the increase in the proportion of deliveries from third party facilities to our stores or to our distribution centers that were made by our transportation subsidiary LLC Selta in 2007. When such deliveries were made by the producers or distributors of the products we purchased, the delivery of the purchased goods was often included in the purchase price of such goods, while the costs of deliveries made by LLC Selta are treated as transportation expenses; and
- an increase in losses due to inventory shortages as a percentage of total revenue (from 0.4% in the year ended December 31, 2006 to 0.5% in the year ended December 31, 2007) that primarily reflected larger fresh and perishable goods losses due to much higher volumes of such goods sold in our stores and distributed through our distribution centers in 2007.

### *Selling Expenses*

Our selling expenses increased by US\$9.6 million, or 48.2%, from US\$19.9 million in the year ended December 31, 2006 to US\$29.5 million in the year ended December 31, 2007.

The following table sets out further details of our selling expenses in the years ended December 31, 2006 and 2007, the percentage of total revenue that each of the components of our selling expenses represented in these two years and the percentage change in each of the components of our selling expenses between these two years.

	<b>Year ended December 31, 2006</b>	<b>Percentage of total revenue</b>	<b>Year ended December 31, 2007</b>	<b>Percentage of total revenue</b>	<b>Percentage change</b>
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>	
Packaging and raw materials	8.7	0.3	11.7	0.3	34.5
Depreciation	3.9	0.2	9.4	0.3	141.0
Fuel	2.5	0.1	3.5	0.1	40.0
Transportation	3.2	0.1	2.5	0.1	(21.9)
Advertising	1.6	0.1	2.4	0.1	50.0
<b>Total selling expenses</b>	<b>19.9</b>	<b>0.8</b>	<b>29.5</b>	<b>0.9</b>	48.2

The increase in our selling expenses in 2007 in comparison with 2006 was principally due to the increases in depreciation and packaging and raw materials, which accounted for 57.3% and 31.3% of the net increase in our selling expenses in 2007, respectively. The large increase in depreciation was principally due to an expansion of our fleet of delivery trucks from approximately 450 at the beginning of 2006 to approximately 730 at the beginning of 2007 and 802 at December 31, 2007. The increase in packaging and raw materials resulted from a larger amount of goods sold in our stores in 2007 in comparison with 2006, but the rate of increase in our packaging and raw materials expense was below the rate of increase in our revenue for the same period. The decrease in transportation expenses reflected the reduction in deliveries of goods from our distribution centers to our stores by third party transportation service providers as our transportation subsidiary LLC Selta continued to expand its operations in 2007.

As a percentage of total revenue, selling expenses slightly increased from 0.8% in the year ended December 31, 2006 to 0.9% in the year ended December 31, 2007.

### *General and Administrative Expenses*

Our general and administrative expenses increased by US\$196.0 million, or 57.4%, from US\$341.4 million in the year ended December 31, 2006 to US\$537.4 million in the year ended December 31, 2007.

The following table sets out further details of our general and administrative expenses in the years ended December 31, 2006 and 2007, the percentage of total revenue that each of the components of our general

and administrative expenses represented in these two years and the percentage change in each of the components of our general and administrative expenses between these two years.

	<u>Year ended December 31, 2006</u>	<u>Percentage of total revenue</u>	<u>Year ended December 31, 2007</u>	<u>Percentage of total revenue</u>	<u>Percentage change</u>
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>	
Payroll	151.8	6.1	241.5	6.6	59.1
Rent and utilities	87.9	3.5	139.2	3.8	58.4
Payroll related taxes	38.0	1.5	59.9	1.6	57.6
Depreciation	25.0	1.0	43.7	1.2	74.8
Repair and maintenance	5.5	0.2	10.8	0.3	96.4
Taxes, other than income tax	7.0	0.3	9.6	0.3	37.1
Bank services	4.7	0.2	7.2	0.2	53.2
Security services	4.1	0.2	5.6	0.2	36.6
Provision for unused vacation	1.9	0.1	3.0	0.1	57.9
Bad debt provision	0.7	0.0	(0.9)	0.0	n/a
Other expenses	14.8	0.5	17.8	0.5	20.3
<b>Total general and administrative expenses</b>	<b>341.4</b>	<b>13.6</b>	<b>537.4</b>	<b>14.6</b>	57.4

As a percentage of total revenue, general and administrative expenses increased from 13.6% in the year ended December 31, 2006 to 14.6% in the year ended December 31, 2007. This increase in general and administrative expenses as a percentage of total revenue was principally a result of large increases in (i) payroll (by 59.1% in 2007 in comparison with 2006) and payroll-related taxes (by 57.6% in 2007 in comparison with 2006) due to increases in both the number of our employees and average salaries, (ii) rent and utilities (by 58.4% in 2007 in comparison with 2006) due primarily to the reasons described in “—*Rent and Utilities*” below, and (iii) depreciation (by 74.8% in 2007 in comparison with 2006) principally due to an increase in the number of owned convenience stores in 2007, all of which items increased at a higher rate than total revenue (and retail revenue) in 2007. The increases in payroll, rent and utilities, payroll-related taxes and depreciation accounted for 45.7%, 26.2%, 11.2% and 9.5% of the net increase in our general and administrative expenses in 2007, respectively.

#### *Payroll and payroll related taxes*

Payroll increased by US\$89.7 million, or 59.1%, from US\$151.8 million in the year ended December 31, 2006 to US\$241.5 million in the year ended December 31, 2007 and payroll-related taxes increased by US\$21.9 million, or 57.6%, from US\$38.0 million in the year ended December 31, 2006 to US\$59.9 million in the year ended December 31, 2007, principally as a result of an increase in the number of our employees and an increase in average salaries.

The average number of our employees increased by 11,024, or by 29.7% from 37,173 in the year ended December 31, 2006 to 48,194 in the year ended December 31, 2007, principally due to an increase in the average number of in-store personnel from 28,250 in the year ended December 31, 2006 to 35,726 in the year ended December 31, 2007 as we significantly expanded the number of stores we operated, as well as large increases in other personnel in part due to our preparation for large-scale entry into the hypermarket segment of the Russian food retail market.

The average annual salary of our employees, calculated as payroll expenses for the year divided by the average number of our employees during that year, increased by US\$920, or 22.5%, from US\$4,083 in the year ended December 31, 2006 to US\$5,003 in the year ended December 31, 2007.

#### *Rent and utilities*

Expenses for rent and utilities increased by US\$51.3 million, or 58.4%, from US\$87.9 million in the year ended December 31, 2006 to US\$139.2 million in the year ended December 31, 2007, principally due to the following reasons:

- an increase in the total space of our leased convenience stores from 573,219 square meters as of December 31, 2006 to 699,491 square meters as of December 31, 2007. The total number of leased convenience stores increased from 1,437 as of December 31, 2006 to 1,674 as of December 31, 2007;
- an increase in the total space of other leased premises (consisting of two distribution centers, one of which was leased in April 2007, offices and other premises) from 98,262 square meters as of December 31, 2006 to 146,683 square meters as of December 31, 2007; and

- increases in rents charged by landlords and increases in tariffs set by utilities service providers, in part driven by inflation and the appreciation of the Rouble against the US Dollar, and higher energy consumption per square meter of leased space due to the continuing installation of low-temperature storage equipment in stores and distribution centers. We believe that the increase in rent and utilities payments on a per square meter basis generally exceeded the rate of inflation in Russia in 2007.

#### *Depreciation charges*

Depreciation charges increased by US\$18.7 million, or 74.8%, from US\$25.0 million in the year ended December 31, 2006 to US\$43.7 million in the year ended December 31, 2007, as a result of increases in spending on depreciable property, plant and equipment. Between December 31, 2006 and December 31, 2007, the number of our convenience stores operating on premises owned by us increased from 456 stores to 520 stores. We also opened our first three hypermarkets in the year ended December 31, 2007. In addition, the number of distribution centers and total warehousing space owned by us also increased from five centers and 75,926 square meters as of December 31, 2006 to seven centers and 130,001 square meters as of December 31, 2007.

#### *Investment Income and Finance Costs*

Our investment income decreased by US\$0.7 million, or by 53.8%, from US\$1.3 million in the year ended December 31, 2006 to US\$0.6 million in the year ended December 31, 2007.

The following table sets out our investment income for the years ended December 31, 2006 and 2007.

	<b>Year ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
	<i>(US\$ in millions)</i>	
Interest on loans	0.3	0.4
Interest income from related party	—	0.2
Interest on deposit from related party	1.0	—
Other investment revenue	—	0.0
<b>Total investment income</b>	<b>1.3</b>	<b>0.6</b>

Our finance costs increased by US\$21.7 million, or by 150.7% from US\$14.4 million in the year ended December 31, 2006 to US\$36.1 million in the year ended December 31, 2007.

The following table sets out our finance costs for the years ended December 31, 2006 and 2007.

	<b>Year ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
	<i>(US\$ in millions)</i>	
Interest on loans	5.5	16.8
Interest on bonds	6.5	16.0
Interest on finance leases	2.4	3.3
<b>Total finance costs</b>	<b>14.4</b>	<b>36.1</b>

The increase in finance costs in 2007 in comparison with 2006 was primarily due to the increases in the outstanding amount of short-term loans, the amount of which increased from US\$160.4 million as of December 31, 2006 to US\$496.0 million as of December 31, 2007, as well as the issuance of RUB 5 billion bonds in March 2007. The total outstanding amount of these bonds as of December 31, 2007 was US\$147.1 million. For further details on our indebtedness, see “*Liquidity and Capital Resources—Indebtedness.*”



### *Other Income and Other Expenses*

The following table sets out our other income and other expenses in the years ended December 31, 2006 and 2007.

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2007</u>
	<i>(US\$ in millions)</i>	
Other income	2.1	5.0
Other expenses	<u>(3.3)</u>	<u>(2.6)</u>
<b>Total other income/(other expenses)</b>	<b><u>(1.2)</u></b>	<b><u>2.4</u></b>

Other income increased by US\$2.9 million, or by 138.1% from US\$2.1 million in the year ended December 31, 2006 to US\$5.0 million in the year ended December 31, 2007, while other expenses decreased by US\$0.7 million, or by 21.2% from US\$3.3 million in the year ended December 31, 2006 to US\$2.6 million in the year ended December 31, 2007.

### *Profit before Tax*

For the reasons discussed above, profit before tax increased by US\$48.7 million, or 59.8%, from US\$81.4 million in the year ended December 31, 2006 to US\$130.1 million in the year ended December 31, 2007.

### *Income Tax*

The following table sets out our income tax expense in the years ended December 31, 2006 and 2007.

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2007</u>
	<i>(US\$ in millions)</i>	
Current tax	20.5	28.9
Deferred tax	<u>3.0</u>	<u>3.8</u>
<b>Total income tax expense</b>	<b><u>23.5</u></b>	<b><u>32.7</u></b>

Our total income tax expense increased by US\$9.2 million, or by 39.1% from US\$23.5 million in the year ended December 31, 2006 to US\$32.7 million in the year ended December 31, 2007, which represents an effective income tax rate of 28.9% in the year ended December 31, 2006 and 25.2% in the year ended December 31, 2007. The decrease in the effective income tax rate was due to a decrease in non-deductible expenses in the year ended December 31, 2007 compared to December 31, 2006 by \$1.9m.

### *Profit for the Year*

For the reasons discussed above, our profit for the year increased by US\$39.5 million, or by 68.2% from US\$57.9 million in the year ended December 31, 2006 to US\$97.4 million in the year ended December 31, 2007.

### ***Year Ended December 31, 2006 Compared with the Year Ended December 31, 2005***

#### *Revenue*

Our total revenue increased by US\$927.3 million, or 58.8%, from US\$1,577.7 million in the year ended December 31, 2005 to US\$2,505.0 million in the year ended December 31, 2006.

The following table sets out our retail and wholesale revenue in the years ended December 31, 2005 and 2006, the share of retail and wholesale revenue in total revenue in each of these two years and the percentage change in retail and wholesale revenue between these two years.

	<b>Year ended December 31, 2005</b>	<b>Share of total revenue</b>	<b>Year ended December 31, 2006</b>	<b>Share of total revenue</b>	<b>Percentage change</b>
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>		<i>(%)</i>
Retail	1,552.6	98.4	2,461.0	98.2	58.5
Wholesale	25.1	1.6	44.0	1.8	75.3
<b>Total revenue</b>	<b>1,577.7</b>	<b>100.0</b>	<b>2,505.0</b>	<b>100.0</b>	58.8

Our retail revenue, which accounted for 98.4% of our total revenue in the year ended December 31, 2005 and 98.2% of our total revenue in the year ended December 31, 2006, increased by US\$908.3 million, or 58.5%, from US\$1,552.6 million in the year ended December 31, 2005 to US\$2,461.0 million in the year ended December 31, 2006.

The following table sets out some key operating performance indicators relevant to retail revenue in the years ended December 31, 2005 and 2006 and the percentage change in these key operating performance indicators between these two years. See “*Presentation of Financial Information*” for information on the method of calculation of these indicators.

	<b>As of or for the year ended December 31,</b>		<b>Percentage change</b>
	<b>2005</b>	<b>2006</b>	
			<i>(%)</i>
Total selling space as of December 31 (thousands of square meters)	383	523	36.6
Number of stores as of December 31	1,500	1,893	26.2
Average selling space as of December 31 (square meters)	255	276	8.2
Tickets per square meter of selling space <sup>(1)</sup>	4.0	3.9	(2.5)
Average ticket (US\$) <sup>(2)</sup>	3.31	3.84	16.0

(1) Tickets per square meter of selling space was calculated for each day of the relevant year with the total number of purchases made at all of our convenience stores during such day divided by the total selling space of our convenience stores as of that day. The number used in the table above is the average of 365 numbers calculated on the daily basis.

(2) Average ticket is calculated by dividing the total amount of retail revenue at all of our stores during the relevant year by the number of tickets in that year.

One of the principal reasons for the increase in our retail revenue in the year ended December 31, 2006 was the increase in the aggregate selling space in our convenience stores, which increased by 36.6% as of December 31, 2006 in comparison with December 31, 2005. This increase was, in turn, caused by a 26.2% increase in the number of stores from 1,500 as of December 31, 2005 to 1,893 as of December 31, 2006 and a 8.2% increase in the average selling space of our convenience stores as of December 31, 2006 in comparison with December 31, 2005.

The increase in our retail revenue in the year ended December 31, 2006 as compared to the preceding year was also driven by an increase in the average ticket, which increased by 16.0% in 2006 in comparison with 2005. We believe that this increase was principally a result of improvements in our product mix due to increasing the share of fresh food products (such as dairy and bakery products, fruits and vegetables), ready-made meals produced in-store and other premium food products, the higher purchasing power of our customers in 2006 in comparison with 2005, which reflect an overall increase in disposable income of the Russian population, and the effects of inflation (9.7%) and the nominal appreciation of the Rouble against the US Dollar (4.0%) in 2006.

The favorable impact of the increases in the selling space in our convenience stores and in the average ticket was partially offset by the decrease in tickets per square meter of selling space in our convenience stores, which decreased by 2.5% in 2006 in comparison with 2005. We believe that this decrease resulted, in part, from the larger average size of our stores and increasing competition from convenience stores and other store formats such as hypermarkets operated by our competitors. In addition, we believe that this decrease reflected in part change in the shopping habits of our consumers as their income increases. We believe that, in general, more affluent customers tend to make fewer trips to our stores in order to reduce

the amount of time they spend on grocery shopping, but purchase a larger amount of products during such trips. Accordingly, we believe that as customers' disposable incomes increase they are likely to visit our stores less frequently, but that the impact of this trend on our revenue is likely to be balanced by the increased average purchases made by such customers.

Our like for like retail revenue measured in Roubles increased by 13.2% in 2006 in comparison with 2005. We believe that this increase was principally a result of improvements in our product mix, higher purchasing power of our customers in 2006 in comparison with 2005, reflecting increased disposable income of the Russian population, and the effects of inflation in 2006. Like for like revenue measured in US Dollars increased by 17.5% during the same period. Data for calculating growth in like for like retail revenue in both US dollars and Russian Roubles was extracted from our management accounts for 2005 and 2006 and, therefore, like for like retail revenue is not directly comparable to retail revenue calculated on the basis of IFRS financial information contained in our Consolidated Financial Statements.

Like for like retail revenue represents a comparison of the 2005 and 2006 retail revenue of stores that at the beginning of 2005 had been trading for at least six months and had not been closed down permanently, expanded or downsized by the end of 2006. The 641 stores included in our like for like sales analysis for 2005 and 2006 therefore only include stores that were opened on or before July 1, 2004 and were not subsequently closed, expanded or downsized.

The like for like average ticket calculated on the basis of data from the 641 stores included in our like for like sales analysis for 2005 and 2006 and measured in US Dollars increased by 14.3% in 2006 in comparison with 2005. During the same period, the like for like number of tickets calculated on the basis of data from the same 641 stores increased by 2.8%; as a result growth in like for like retail revenue in 2006 in comparison with 2005 was driven principally by the increase in the like for like average ticket.

Our wholesale revenue accounted for 1.6% of our total revenue in the year ended December 31, 2005 and 1.8% of our total revenue in the year ended December 31, 2006. This increase, however, was only temporary. We did not intend to expand our wholesale operations and, in fact, reduced them significantly in the second half of 2007 and wound them down almost completely by the end of 2007.

#### *Cost of Sales and Gross Profit*

The following table sets out our cost of sales, gross profit and gross margin in the years ended December 31, 2005 and 2006, including a split for retail and wholesale operations, and the percentage change in cost of sales and gross profit.

	<b>Year ended December 31,</b>		<b>Percentage change</b>
	<b>2005</b>	<b>2006</b>	
	<i>(US\$ in millions, except percentages)</i>		<i>(%)</i>
<b>Cost of sales</b>			
Retail	1,287.8	2,012.8	56.3
Wholesale	23.3	35.2	51.1
<b>Total cost of sales</b>	<b>1,311.1</b>	<b>2,048.0</b>	56.2
<b>Gross profit</b>			
Retail	264.8	448.2	69.3
Wholesale	1.8	8.8	388.9
<b>Total gross profit</b>	<b>266.6</b>	<b>457.0</b>	71.4
<b>Gross margin<sup>(1)</sup></b>			
Retail	17.1%	18.2%	
Wholesale	7.2%	20.0%	
<b>Total gross margin</b>	16.9%	18.2%	

(1) Gross margin is calculated as gross profit divided by revenue, expressed as a percentage.

The increase in retail gross profit accounted for 96.3% of the increase in total gross profit in 2006 in comparison with 2005. Cost of sales in both our retail and wholesale businesses increased more slowly than total revenue in 2006 as compared to 2005, which led to increases in our gross margins in 2006.

The following table sets out further details of our cost of sales in the years ended December 31, 2005 and 2006, the percentage of total revenue that each of the components of our cost of sales represented in these two years and the percentage change in each of the components of our cost of sales between these two years.

	<u>Year ended December 31, 2005</u>	<u>Percentage of total revenue</u>	<u>Year ended December 31, 2006</u>	<u>Percentage of total revenue</u>	<u>Percentage change</u>
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>	
Cost of goods sold	1,296.4	82.2	2,037.9	81.4	57.2
Transportation expenses <sup>(1)</sup>	20.1	1.3	35.8	1.4	78.1
Losses due to inventory shortages <sup>(2)</sup>	7.2	0.5	9.0	0.4	25.0
Rebates and promotional bonuses received from suppliers	<u>(12.4)</u>	<u>(0.8)</u>	<u>(34.7)</u>	<u>(1.4)</u>	179.8
<b>Total cost of sales</b>	<b><u>1,311.1</u></b>	<b><u>83.1</u></b>	<b><u>2,048.0</u></b>	<b><u>81.8</u></b>	56.2

(1) Excludes transportation expenses related to delivery of goods from our distribution centers to our stores by third party transportation service providers.

(2) Losses due to inventory shortages are losses resulting from products being lost, stolen, damaged or otherwise defective.

The increase in our gross margin was principally the result of the following factors:

- a decrease in the ratio of cost of goods sold to total revenue from 82.2% in the year ended December 31, 2005 to 81.4% in the year ended December 31, 2006. We believe this decrease was principally due to our improved purchasing power resulting from the significantly increased scale of our operations in the year ended December 31, 2006, as well as due to the distribution of a larger proportion of goods through our distribution centers in 2006 in comparison with 2005, allowing us to reduce exposure to third party distributors and their significant mark-ups on products we buy from them. Another reason for this decrease was the increase in the proportion of deliveries from third party facilities to our stores or to our distribution centers that were made by our transportation subsidiary LLC Selta in 2006, which, in many cases, allowed us to obtain lower prices from producers or distributors;
- a large increase in rebates and promotional bonuses received from suppliers as a percentage of total revenue from 0.8% in the year ended December 31, 2005 to 1.4% in the year ended December 31, 2006, also resulting principally from our improved purchasing power; and
- an increase in the share of retail revenue attributable to the sale of private label products on which we generally earn higher gross margins, from 8.2% of retail revenue in the year ended December 31, 2005 to 10.9% of retail revenue in the year ended December 31, 2006.

The impact of these factors on our gross margin was partially offset by the increase in transportation expenses as a percentage of total revenue (from 1.3% in the year ended December 31, 2005 to 1.4% in the year ended December 31, 2006) due to the increase in the proportion of deliveries from third party facilities to our stores or to our distribution centers that were made by our transportation subsidiary LLC Selta in 2006. When such deliveries were made by the producers or distributors of the products we purchased, the delivery of the purchased goods was often included in the purchase price of such goods, while the costs of deliveries made by LLC Selta are treated as transportation expenses.

#### *Selling Expenses*

Our selling expenses increased by US\$5.4 million, or 37.2%, from US\$14.5 million in the year ended December 31, 2005 to US\$19.9 million in the year ended December 31, 2006.

The following table sets out further details of our selling expenses in the years ended December 31, 2005 and 2006, the percentage of total revenue that each of the components of our selling expenses represented in these two years and the percentage change in each of the components of our selling expenses between these two years.

	<b>Year ended December 31, 2005</b>	<b>Percentage of total revenue</b>	<b>Year ended December 31, 2006</b>	<b>Percentage of total revenue</b>	<b>Percentage change</b>
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>	
Packaging and raw materials	6.4	0.4	8.7	0.3	35.9
Depreciation	1.4	0.1	3.9	0.2	178.6
Fuel	1.5	0.1	2.5	0.1	66.7
Transportation	3.3	0.2	3.2	0.1	(3.0)
Advertising	1.9	0.1	1.6	0.1	(15.8)
<b>Total selling expenses</b>	<b>14.5</b>	<b>0.9</b>	<b>19.9</b>	<b>0.8</b>	37.2

The increase in our selling expenses in 2006 in comparison with 2005 was principally due to the increases in depreciation and packaging and raw materials, which accounted for 45.5% and 41.8% of the net increase in our selling expenses in 2006, respectively. The large increase in depreciation was principally due to an expansion of our fleet of delivery trucks from 173 as of December 31, 2004 to approximately 450 at the beginning of 2006 and approximately 730 as of December 31, 2006. The increase in packaging and raw materials resulted from a larger amount of goods sold in our stores in 2006 in comparison with 2005, but the rate of increase in our packaging and raw materials expense was smaller than the rate of increase in our revenue for the same period. The decrease in transportation expenses as a percentage of total revenue reflected the reduction in deliveries of goods from our distribution centers to our stores by third party transportation service providers as our transportation subsidiary LLC Selta continued to expand its operations in 2006.

As a percentage of total revenue, selling expenses declined from 0.9% in the year ended December 31, 2005 to 0.8% in the year ended December 31, 2006.

#### *General and Administrative Expenses*

Our general and administrative expenses increased by US\$153.2 million, or 81.4%, from US\$188.2 million in the year ended December 31, 2005 to US\$341.4 million in the year ended December 31, 2006.

The following table sets out further details of our general and administrative expenses in the years ended December 31, 2005 and 2006, the percentage of total revenue that each of the components of our general and administrative expenses represented in these two years and the percentage change in each of the components of our general and administrative expenses between these two years.

	<b>Year ended December 31, 2005</b>	<b>Percentage of total revenue</b>	<b>Year ended December 31, 2006</b>	<b>Percentage of total revenue</b>	<b>Percentage change</b>
	<i>(US\$ in millions)</i>	<i>(%)</i>	<i>(US\$ in millions)</i>	<i>(%)</i>	
Payroll	89.9	5.7	151.8	6.1	68.9
Rent and utilities	42.7	2.7	87.9	3.5	105.9
Payroll-related taxes	22.6	1.4	38.0	1.5	68.1
Depreciation	13.6	0.9	25.0	1.0	83.8
Repair and maintenance	7.3	0.5	5.5	0.2	(24.7)
Taxes, other than income tax	1.7	0.1	7.0	0.3	311.8
Bank services	2.8	0.2	4.7	0.2	67.9
Security services	2.5	0.2	4.1	0.2	64.0
Provision for unused vacation	—	—	1.9	0.1	n/a
Bad debt provision	0.5	0.0	0.7	0.0	40.0
Other expenses	4.6	0.2	14.8	0.5	221.7
<b>Total general and administrative expenses</b>	<b>188.2</b>	<b>11.9</b>	<b>341.4</b>	<b>13.6</b>	81.5

As a percentage of total revenue, general and administrative expenses increased from 11.9% in the year ended December 31, 2005 to 13.6% in the year ended December 31, 2006. This increase in general and administrative expenses as a percentage of total revenue was principally a result of large increases in (i) payroll (by 68.9% in 2006 in comparison with 2005) and payroll-related taxes (by 68.1% in 2006 in comparison with 2005) due to increases in both the number of our employees and average salaries, (ii) rent and utilities (by 105.9% in 2006 in comparison with 2005) due primarily to the reasons described in “—*Rent and Utilities*” below, and (iii) depreciation (by 83.8% in 2006 in comparison with 2005) principally due to an increase in the number of owned convenience stores in 2006, all of which items increased at a higher rate than total revenue (and retail revenue) in 2006. The increases in payroll, rent and utilities, payroll-related taxes and depreciation accounted for 40.4%, 29.5%, 10.0% and 7.4% of the net increase in our general and administrative expenses in 2006, respectively.

#### *Payroll and payroll-related taxes*

Payroll increased by US\$61.9 million, or 68.9%, from US\$89.9 million in the year ended December 31, 2005 to US\$151.8 million in the year ended December 31, 2006 and payroll related taxes increased by US\$15.4 million, or 68.1%, from US\$22.6 million in the year ended December 31, 2005 to US\$38.0 million in the year ended December 31, 2006, principally as a result of an increase in the number of our employees and, to a lesser extent, an increase in average salaries.

The average number of our employees increased by approximately 12,300, or by 49.5% from 24,870 in the year ended December 31, 2005 to 37,170 in the year ended December 31, 2006, principally due to an increase in the average number of in-store personnel from 19,400 in the year ended December 31, 2005 to 28,250 in the year ended December 31, 2006 as we significantly expanded the number of stores we operated.

The average annual salary of our employees, calculated as payroll expenses for the year divided by the average number of our employees during that year, increased by US\$467, or 12.9%, from US\$3,616 in the year ended December 31, 2005 to US\$4,083 in the year ended December 31, 2006.

#### *Rent and utilities*

Expenses for rent and utilities increased by US\$45.2 million, or 105.9%, from US\$42.7 million in the year ended December 31, 2005 to US\$87.9 million in the year ended December 31, 2006, principally due to the following reasons:

- an increase in the total space of our leased convenience stores from 481,668 square meters as of December 31, 2005 to 573,219 square meters as of December 31, 2006. The total number of leased stores increased from 1,326 as of December 31, 2005 to 1,437 as of December 31, 2006;
- an increase in the total space of other leased premises (consisting of one distribution center, offices and other premises) from 65,313 square meters as of December 31, 2005 to 98,262 square meters as of December 31, 2006; and
- increases in rents charged by landlords and increases in tariffs set by utilities service providers, in part driven by inflation and the appreciation of the Rouble against the US Dollar and higher energy consumption per square meter of leased space due to the continuing installation of low-temperature storage equipment in stores and distribution centers. We believe that the increase in rent and utilities payments on a per square meter basis generally exceeded the rate of inflation in Russia in 2006.

#### *Depreciation charges*

Depreciation charges increased by US\$11.4 million, or 83.8%, from US\$13.6 million in the year ended December 31, 2005 to US\$25.0 million in the year ended December 31, 2006, as a result of increases in spending on depreciable property, plant and equipment. Between December 31, 2005 and December 31, 2006, the number of our convenience stores operating on premises owned by us increased from 174 stores to 456 stores. The number of distribution centers and total warehousing space owned by us also increased from three centers and 49,490 square meters of warehousing space, respectively, as of December 31, 2005 to five centers and 75,926 square meters of warehousing space, respectively, as of December 31, 2006.

### *Investment Income and Finance Costs*

Our investment income increased by US\$1.3 million from US\$9 thousand in the year ended December 31, 2005 to US\$1.3 million in the year ended December 31, 2006.

The following table sets out our investment income for the years ended December 31, 2005 and 2006.

	<b>Year ended December 31,</b>	
	<b>2005</b>	<b>2006</b>
	<i>(US\$ in thousands)</i>	
Interest on loans	9	283
Interest income from related party	—	—
Interest on deposit from related party	—	1,039
Other investment revenue	—	—
<b>Total investment income</b>	<b>9</b>	<b>1,322</b>

Our finance costs increased by US\$1.5 million, or by 11.6% from US\$12.9 million in the year ended December 31, 2005 to US\$14.4 million in the year ended December 31, 2006.

The following table sets out our finance costs for the years ended December 31, 2005 and 2006.

	<b>Year ended December 31,</b>	
	<b>2005</b>	<b>2006</b>
	<i>(US\$ in millions)</i>	
Interest on loans	11.2	5.5
Interest on bonds	0.7	6.5
Interest on finance leases	1.0	2.4
<b>Total finance costs</b>	<b>12.9</b>	<b>14.4</b>

The increase in finance costs in 2006 in comparison with 2005 was primarily due to the issuance of RUB 2 billion bonds in November 2005. Interest on these bonds increased from US\$0.7 million in 2005 to US\$6.5 million in 2006. Interest on finance leases also increased by US\$1.4 million due to the increase in the number of delivery trucks leased by us in 2006 in comparison with 2005. These increases were partially offset by the US\$5.7 million decrease in interest on loans, principally resulting from the decrease in the outstanding amount of loans following the issuance of long-term bonds in November 2005 and the completion of our initial public offering in May 2006, proceeds of which were used to temporarily reduce indebtedness. For further details on our indebtedness, see “*Liquidity and Capital Resources—Indebtedness.*”

### *Other Income and Other Expenses*

The following table sets out our other income and expenses in the years ended December 31, 2005 and 2006.

	<b>Year ended December 31,</b>	
	<b>2005</b>	<b>2006</b>
	<i>(US\$ in millions)</i>	
Other income	0.9	2.1
Other expenses	(1.9)	(3.3)
<b>Total other income/(other expenses)</b>	<b>(1.0)</b>	<b>(1.2)</b>

Other income increased by US\$1.2 million, or by 133.3% from US\$0.9 million in the year ended December 31, 2005 to US\$2.1 million in the year ended December 31, 2006, while other expenses increased by US\$1.4 million, or by 73.7% from US\$1.9 million in the year ended December 31, 2005 to US\$3.3 million in the year ended December 31, 2006.

### *Profit before Tax*

For the reasons discussed above, profit before tax increased by US\$31.4 million, or 62.8%, from US\$50.0 million in the year ended December 31, 2005 to US\$81.4 million in the year ended December 31, 2006.

### *Income Tax*

The following table sets out our income tax expense in the years ended December 31, 2005 and 2006.

	<b>Year ended December 31,</b>	
	<b>2005</b>	<b>2006</b>
	<i>(US\$ in millions)</i>	
Current tax	10.1	20.5
Deferred tax	2.4	3.0
<b>Total income tax expense</b>	<b>12.5</b>	<b>23.5</b>

Our total income tax expense increased by US\$11.0 million, or by 88.0% from US\$12.5 million in the year ended December 31, 2005 to US\$23.5 million in the year ended December 31, 2006, which represents an effective income tax rate of 25.0% in the year ended December 31, 2005 and 28.9% in the year ended December 31, 2006. The increase in the effective rate is due to a US\$1.9 million increase in non-deductible expenses for the year ended December 31, 2006 compared to December 31, 2005. In addition, inventory shortages which are not deductible for tax purposes increased by US\$1.0 million.

### *Profit for the Year*

For the reasons discussed above, our profit for the year increased by US\$20.4 million, or by 54.4% from US\$37.5 million in the year ended December 31, 2005 to US\$57.9 million in the year ended December 31, 2006.

### **Liquidity and Capital Resources**

In addition to financing our existing operations, our liquidity needs arise principally from the need to finance the acquisition of land plots for new convenience stores and hypermarkets, the acquisition or construction of convenience stores, the construction of new hypermarkets, the purchase of machinery and equipment necessary to support our expanding operations and further development of our logistics system (including the construction of new distribution centers and increasing the size of our fleet of delivery trucks). During the period under review, we met a part of our liquidity needs with net cash generated from operations and the balance through the funds raised in our initial public offering in May 2006, through the issuance of Rouble-denominated bonds in November 2005 and May 2007, through short- and long-term bank borrowings and, to a lesser extent, through finance leases.

We plan to use the net proceeds of the Share Issue to finance further expansion of our hypermarkets, as well as to continue the expansion of our convenience store operations and further development of our logistics capabilities. With respect to the net proceeds of the Share Issue that cannot immediately be used for such purposes, pending such uses, we plan to apply the net proceeds of the Share Issue to repay the amounts outstanding under our revolving credit line facilities and then, in the course of 2008, use the amounts available under these facilities for the purposes described in the previous sentence.

After 2008, we intend to rely on net cash generated from operations, bond issuances, short-term and long-term loans and leasing to meet our liquidity needs. We plan to increase the share of long-term borrowings in our debt portfolio.

### **Cash Flows**

The following table sets summary cash flow information for the years ended December 31, 2005, 2006 and 2007:

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in millions)</i>		
Net cash generated from operating activities	33.6	86.0	242.4
Net cash used in investing activities	(78.7)	(301.6)	(568.7)
Net cash generated from financing activities	72.4	258.7	354.8
Net increase/(decrease) in cash and cash equivalents	<b>27.3</b>	<b>43.1</b>	<b>28.5</b>
Effect of foreign exchange rates on cash and cash equivalents	(1.3)	0.9	2.7



## *Cash Flows from (Used in) Operating Activities*

### *Year ended December 31, 2007 compared to the year ended December 31, 2006*

Net cash generated by operating activities increased by US\$156.4 million, or by 181.9%, from US\$86.0 million in the year ended December 31, 2006 to US\$242.4 million in the year ended December 31, 2007. This increase was the result of (i) a US\$48.7 million increase in profit before income tax (from US\$81.4 million for the year ended December 31, 2006 to US\$130.1 million for the year ended December 31, 2007); (ii) a US\$45.7 million increase in adjustments to profit before income tax (from US\$43.3 million in the year ended December 31, 2006 to US\$89.0 million in the year ended December 31, 2007); and (iii) a US\$89.4 million change due to movements in working capital (from a US\$1.3 million increase in working capital in the year ended December 31, 2006 to a US\$88.1 million decrease in working capital in the year ended December 31, 2007), which were partially offset by (x) a US\$11.8 million increase in income tax paid (from US\$24.6 million in the year ended December 31, 2006 to US\$36.4 million in the year ended December 31, 2007); and (y) a US\$15.6 million increase in interest paid (from US\$12.9 million in the year ended December 31, 2006 to US\$28.5 million in the year ended December 31, 2007).

Adjustments to profit before income tax consist of adjustments for depreciation, amortization, loss or gain on disposal of property, plant and equipment, change in provision for doubtful receivables, investment income and finance costs. The increase in adjustments to profit before income tax in 2007 in comparison with 2006 was principally the result of the increase in depreciation (from US\$28.9 million in the year ended December 31, 2006 to US\$53.1 million in the year ended December 31, 2007), which accounted for 53.0% of the net increase in adjustments, reflecting significant acquisitions of depreciable property, plant and equipment made in 2007 as part of our expansion program, and the increase in finance costs (from US\$14.4 million in the year ended December 31, 2006 to US\$36.1 million in the year ended December 31, 2007), which accounted for 47.5% of the net increase in adjustments.

Movements in working capital consist of changes in trade accounts receivable, advances paid, other receivables, taxes receivable, prepaid expenses, merchandise, trade accounts payable, other payables and taxes payable. In the year ended December 31, 2006, merchandise increased by US\$96.2 million and advances paid, representing advances paid to suppliers, increased by US\$36.9 million. These increases, however, were offset by the increase in trade accounts payable (by US\$127.2 million), which reflected our policy of increasing the number of days for which our accounts payable remained outstanding and thus shifting the costs of keeping goods in inventory to suppliers. The overall increase in working capital was, therefore, relatively small at US\$1.3 million. In the year ended December 31, 2007, trade accounts payable increased by US\$156.2 million and other payables increased by US\$14.2 million, which was only partially offset by increases in merchandise (by US\$82.9 million) and in other receivables (by US\$9.4 million), resulting in the overall decrease in working capital in the amount of US\$88.1 million.

### *Year ended December 31, 2006 compared to the year ended December 31, 2005*

Net cash generated by operating activities increased by US\$52.4 million, or by 156.0%, from US\$33.6 million in the year ended December 31, 2005 to US\$86.0 million in the year ended December 31, 2006. This increase was the result of (i) a US\$31.4 million increase in profit before income tax (from US\$50.0 million for the year ended December 31, 2005 to US\$81.4 million for the year ended December 31, 2006); (ii) a US\$14.8 million increase in adjustments to profit before income tax (from US\$28.5 million in the year ended December 31, 2005 to US\$43.3 million in the year ended December 31, 2006); and (iii) a smaller (by US\$29.0 million) increase in working capital in 2006 in comparison with 2005 (a US\$30.3 million increase in working capital in the year ended December 31, 2005 compared to a US\$1.3 million increase in working capital in the year ended December 31, 2006), which were partially offset by (x) a US\$21.4 million increase in income tax paid (from US\$3.2 million in the year ended December 31, 2005 to US\$24.6 million in the year ended December 31, 2006); and (y) a US\$1.5 million increase in interest paid (from US\$11.4 million in the year ended December 31, 2005 to US\$12.9 million in the year ended December 31, 2006).

The increase in adjustments to profit before income tax in 2006 in comparison with 2005 was principally the result of the increase in depreciation (from US\$15.1 million in the year ended December 31, 2005 to US\$28.9 million in the year ended December 31, 2006), which accounted for 93.2% of the net increase in adjustments and reflected significant acquisitions of depreciable property, plant and equipment made in 2006 as part of our expansion program.

The US\$30.3 million increase in working capital in the year ended December 31, 2005 was principally the result of a US\$77.7 million increase in merchandise, which was only partially offset by increases in trade accounts payable and other payables. In the year ended December 31, 2006, merchandise increased by an even larger amount (US\$96.2 million), but this increase was significantly smaller than the increase in trade accounts payable (US\$127.2 million). The increase in advances paid to suppliers, was US\$36.9 million in the year ended December 31, 2006, compared to US\$18.6 million in the year ended December 31, 2005.

#### *Cash Flows Used in Investing Activities*

##### *Year ended December 31, 2007 compared to the year ended December 31, 2006*

Net cash used in investing activities increased by US\$267.1 million, or by 88.6% from US\$301.6 million in the year ended December 31, 2006 to US\$568.7 million in the year ended December 31, 2007. Cash used in investing activities was principally used for purchases of property, plant and equipment in both the year ended December 31, 2006 and the year ended December 31, 2007. Such purchases accounted for US\$300.9 million of net cash used in investing activities in the year ended December 31, 2006 and for US\$571.0 million of net cash used in investing activities in the year ended December 31, 2007, which reflected our substantial convenience store expansion program and purchase of additional land plots for, and construction of, hypermarkets. The significant increase in net cash used in investing activities in 2007 reflected (i) the opening of three hypermarkets in 2007 and construction of several other hypermarkets in that year; (ii) greater expenses on construction and fitting out of our distribution centers in 2007 in comparison with 2006; and (iii) the acquisition of a large number of land plots for hypermarkets in the year ended December 31, 2007.

##### *Year ended December 31, 2006 compared to the year ended December 31, 2005*

Net cash used in investing activities increased by US\$222.9 million, or by 283.2% from US\$78.7 million in the year ended December 31, 2005 to US\$301.6 million in the year ended December 31, 2006. Cash used in investing activities was principally used for purchases of property, plant and equipment in both the year ended December 31, 2005 and the year ended December 31, 2006. Such purchases accounted for US\$78.3 million of net cash used in investing activities in the year ended December 31, 2005 and for US\$300.9 million of net cash used in investing activities in the year ended December 31, 2006, which reflected our substantial convenience store expansion program and purchase of land plots for hypermarkets and convenience stores. The significant increase in net cash used in investing activities in 2006 reflected (i) the acquisition of a large number of convenience stores in 2006 in comparison with 2005 (we owned 456 convenience stores as of December 31, 2006 as compared to 174 such stores as of December 31, 2005); (ii) greater expenses on construction and fitting out of our distribution centers in 2006 in comparison with 2005; and (iii) the acquisition of nine land plots for hypermarkets in the year ended December 31, 2006.

#### *Cash Flows from Financing Activities*

##### *Year ended December 31, 2007*

Net cash generated by financing activities in the year ended December 31, 2007 was equal to US\$354.8 million. This principally reflected a net cash inflow of US\$368.5 million resulting from new borrowings in the amount of US\$1,522.4 million, including the issuance of RUB 5 billion bonds in March 2007, partially offset by the repayment of existing borrowings in the amount of US\$1,153.9 million. We also used US\$12.7 million in the year ended December 31, 2007 to repay obligations under finance leases of delivery trucks.

##### *Year ended December 31, 2006*

Net cash generated by financing activities in the year ended December 31, 2006 was equal to US\$258.7 million. This principally reflected the receipt of proceeds from the issue of Ordinary Shares in connection with our initial public offering in May 2006 in the amount of US\$179.3 million and a net cash inflow of US\$89.1 million resulting from new borrowings in the amount of US\$599.8 million, partially offset by the repayment of existing borrowings in the amount of US\$510.7 million. We also used US\$9.7 million in the year ended December 31, 2006 to repay obligations under finance leases of delivery trucks.

##### *Year ended December 31, 2005*

Net cash generated by financing activities in the year ended December 31, 2005 was equal to US\$72.4 million. This principally reflected a net cash inflow of US\$81.4 million resulting from new

borrowings in the amount of US\$679.3 million, including the issuance of RUB 2 billion bonds in November 2005, partially offset by the repayment of existing borrowings in the amount of US\$597.9 million. We also used US\$8.6 million in the year ended December 31, 2005 to repay obligations under finance lease of delivery trucks.

### **Working Capital**

We believe that cash flow from operations together with available borrowings will enable us to meet our working capital needs for at least the next 12 months. The preceding sentence is not included for the purposes of complying with Annex III, Item 3.1 of Commission Regulation (EC) 809/2004.

As of December 31, 2007, our working capital (defined as current assets excluding cash and cash equivalents and short-term investments) *minus* (current liabilities excluding short-term loans and short-term obligations under finance leases) was negative US\$72.8 million. We also monitor our merchandise less trade accounts payable as a measure related to our working capital, which was negative US\$107.2 million as of December 31, 2007. We believe that the measures of working capital in the food retail industry are customarily negative, and that maintaining a negative working capital position is desirable.

### **Indebtedness**

The following table sets out our total debt as of December 31, 2007. With the exception of certain finance leases which are denominated in US Dollars and euro, all of our indebtedness is denominated in Roubles. Where the finance leases are denominated in US Dollars and euro, payments made under the leases are settled in Roubles, based on the exchange rate as at the date of settlement.

	<b>As of December 31, 2007</b>
	<i>(US\$ in millions)</i>
Short-term debt <sup>(1)</sup>	509.2
Long-term debt <sup>(2)</sup>	183.4
<b>Total</b>	<b>692.6</b>

(1) Short-term debt includes short-term obligations under finance leases of US\$13.1 million as of December 31, 2007.

(2) Long-term debt includes long-term obligations under finance leases of US\$22.7 million as of December 31, 2007.

We consider the ratio of net debt (including obligations under finance leases) to EBITDA as the principal statistic for evaluating the impact of the total size of our borrowings on our operations, with the target ratio of not more than 3.0 and the maximum permissible ratio of 4.0 (which might be adjusted in case of any major mergers and acquisitions transactions). In the years ended December 31, 2005, 2006 and 2007, our net debt to EBITDA ratio was 1.47, 1.35 and 2.61, respectively. Net debt to EBITDA represents a non-IFRS measure and may not be comparable to similarly titled measures disclosed by other companies and investors should not use this non-IFRS measure as a substitute for figures provided in our Consolidated Financial Statements. See “*Selected Consolidated Financial Information*” for a discussion of our calculation of EBITDA.

### **Short-Term Borrowings**

The total amount outstanding under our loans and bonds maturing within one year was US\$74.8 million, US\$160.4 million and US\$496.0 million as of December 31, 2005, 2006 and 2007, respectively, and they bore interest at weighted average interest rates in 2007 that varied between 0% and 11.0% per annum. In 2006, 2007 and 2008, we entered into a number of Rouble-denominated credit line agreements and other agreements with several branches of Sberbank, BSGV, Raiffeisenbank Austria, Deutsche Bank Ltd. (“**Deutsche Bank**”), Gazprombank, Uralsib Bank, UniCredit Bank (formerly International Moscow Bank) and Uralsib-Yugbank (formerly Yugbank) under which we incurred indebtedness maturing in 2008 and 2009. These agreements are briefly described below in “—*Description of Material Agreements.*” The significant increase in short-term borrowings as of December 31, 2007 primarily reflects borrowings related to developing our hypermarkets.

As of December 31, 2007, our short-term indebtedness included US\$85.3 million of Rouble-denominated bonds issued in November 2005 and maturing in November 2008. The bonds, which were issued with a

nominal value of RUB 2,000 million, are traded on MICEX and bear interest at a rate of 9.34% per annum, with interest payable in May and November.

#### *Long-Term Borrowings*

The total amount outstanding under our long-term loans and bonds (excluding current portion of long-term loans) was US\$79.4 million, US\$82.9 million and US\$160.8 million as of December 31, 2005, 2006 and 2007, respectively, and they bore interest at weighted average interest rates that varied between 8.0% and 10.0% per annum.

As of December 31, 2007, our long-term indebtedness included bonds we issued in March 2007 with a nominal value of RUB 5 billion maturing in March 2012. The bonds are listed on the list "B" of MICEX and bear interest at a rate of 8.20% per annum, with interest payable in March and September. We repurchased RUB 1,369 million of these bonds in the first half of 2007, and had US\$147.1 million outstanding under these bonds as of December 31, 2007.

Our long-term Rouble-denominated revolving credit agreement with Raiffeisenbank Austria, under which we had US\$13.6 million outstanding as of December 31, 2007, is described below.

#### *Description of Material Loan Agreements*

Set out below is a description of the agreements for our credit facilities, credit agreements and other indebtedness (other than our Rouble-denominated bonds) providing for borrowings of RUB 200 million or more. For information on weighted average interest rates on our short-term indebtedness, see note 28 to our Consolidated Financial Statements.

##### *RUB 200 million credit line agreement with ALFA-BANK*

On October 9, 2006, our subsidiary Tander entered into a US\$7.6 million credit line agreement with ALFA-BANK. The drawdowns are to be drawn within the specified total limit on the basis of separate agreements, specifying the interest rate and the term of each loan that should not exceed 12 months. Funds borrowed under this facility must be repaid not later than December 1, 2008. As of December 31, 2007, Tander had no outstanding indebtedness under this credit line agreement.

##### *RUB 1,000 million credit agreement with UniCredit Bank (formerly International Moscow Bank)*

On June 15, 2007, our subsidiary Tander entered into a US\$40.7 million credit agreement with UniCredit Bank. The loans under this facility bear interest rates that are agreed separately for each drawdown. Drawdowns under this facility can be made for a term not exceeding three months and must not be less than RUB 10 million. Funds may be borrowed under this facility until November 30, 2008 and must be repaid not later than December 30, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$32.7 million.

##### *RUB 200 million credit facility agreement with Raiffeisenbank Austria*

On June 27, 2007, our subsidiary Tander entered into a US\$8.1 million credit facility agreement with Raiffeisenbank Austria. The interest rate for loans made under this facility is variable and is equal to the MosPrime rate for the relevant interest period or, if the MosPrime rate is not quoted, the lender's internal interest rate for loans in Roubles, in each case plus a margin the size of which depends on the level of the MosPrime rate or the lender's internal interest rate, as the case may be. We were able to borrow funds under this facility until March 27, 2008. All borrowed funds need to be repaid not later than June 29, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$8.1 million.

##### *RUB 1,000 million credit facility agreement with Raiffeisenbank Austria*

On September 21, 2007, our subsidiary Tander entered into a US\$40.7 million credit facility agreement with Raiffeisenbank Austria. The interest rate for the facility is the aggregate of (i) the one, two, three or six-month MosPrime rate (or, if the MosPrime rate is not quoted, an interest rate calculated by the lender in accordance with the method specified in the agreement) and (ii) a margin determined based on the term of the drawdown. Funds may be borrowed under this facility for periods ranging from one to 12 months until February 16, 2009 and must be repaid not later than March 18, 2009. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$40.7 million.

*RUB 1,000 million revolving credit line agreement with BSGV*

On November 2, 2007, our subsidiary Tander entered into a US\$40.7 million revolving credit line agreement with BSGV. The interest rate for the facility is the aggregate of (i) the MosPrime rate for the relevant interest period or, if the MosPrime rate is not quoted and the parties to the facility agreement fail to agree on it, the lender's internal interest rate for loans in Roubles and (ii) a fixed margin. Drawdowns under this facility may be made for a term not exceeding four months until November 2, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$40.9 million.

*RUB 1,000 million revolving credit line agreement with BSGV*

On March 18, 2008, our subsidiary Tander entered into a US\$40.7 million revolving credit line agreement with BSGV. The interest rate for the facility is the aggregate of (i) the MosPrime rate for the relevant interest period concerned or, if the MosPrime rate is not quoted and the parties to the facility agreement fail to agree on it, the lender's internal interest rate for loans in Roubles and (ii) a fixed margin. Drawdowns under this facility may be made for a term not exceeding four months until March 18, 2009.

*RUB 1,000 million credit line agreement with Gazprombank*

On December 14, 2007, our subsidiary Tander entered into a US\$40.7 million credit line agreement with Gazprombank. The facility agreement provides for a fixed interest rate on loans drawn under this facility, with the lender being entitled to a unilateral increase of the interest rate under certain circumstances. The drawdowns under this facility may be made for a term not exceeding 90 days until August 31, 2008 and must be repaid not later than October 31, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$20.4 million.

*Promissory notes issue agreements with Deutsche Bank*

We entered into two loan arrangements with Deutsche Bank in December 2007 involving the issuance of promissory notes: (i) an agreement in connection with an issuance of RUB 607.0 million promissory notes in exchange for a RUB 575.2 million loan, to be repaid on June 18, 2008; and (ii) an agreement in connection with an issuance of RUB 427.1 million promissory notes issue in exchange for a RUB 404.8 million loan, to be repaid on June 21, 2008.

*Credit line facilities with Sberbank*

In 2007, our subsidiary Tander entered into the following six credit line agreements and one overdraft credit line agreement with the Krasnodar branch of Sberbank involving loans of RUB 200 million or more:

- an agreement with respect to a US\$34.6 million credit line facility, dated February 15, 2007. The drawdowns are to be drawn within the specified total limit on the basis of separate agreements, specifying the interest rate and the term of each loan. Funds borrowed under this facility must be repaid not later than August 12, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$34.6 million.
- an agreement with respect to a US\$34.6 million credit line facility, dated March 5, 2007. The drawdowns are to be drawn within the specified total limit on the basis of separate agreements, specifying the interest rate and the term of each loan. Funds borrowed under this facility must be repaid not later than August 29, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$34.6 million.
- an agreement with respect to a US\$44.4 million credit line facility, dated June 18, 2007. The drawdowns are to be drawn within the specified total limit on the basis of separate agreements, each at a fixed interest rate (with the lender being entitled to a unilateral increase of the interest rate) and for a term of not more than 120 days. Funds borrowed under this facility must be repaid not later than December 11, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$38.3 million.
- an agreement with respect to a US\$34.5 million credit line facility, dated September 17, 2007. Each drawdown under this facility can be made for a period of not more than 120 days. The interest rate for each loan is fixed, with the lender being entitled to a unilateral increase of the interest rate. Funds borrowed under this facility must be repaid not later than March 13, 2009. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$30.4 million.

- an agreement with respect to a US\$9.1 million credit line facility, dated October 29, 2007. Funds borrowed under this facility were required to be repaid not later than February 25, 2008. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$9.1 million. This facility expired prior to the date of this Prospectus.
- an agreement with respect to a US\$17.8 million credit line facility, dated December 24, 2007 and terminating on June 19, 2009. The drawdowns under this facility are to be made within the specified total limit on the basis of separate agreements, each for a term of not more than 120 days. The interest rate for each loan is fixed, with the lender being entitled to a unilateral increase of the interest rate. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$17.8 million.
- an overdraft agreement dated September 10, 2007. Under the terms of this agreement, the borrower's account was credited on the basis of separate agreements specifying the term, the interest rate and the limit of each loan. On January 31, 2008 and February 29, 2008 Tander entered into two separate agreements each for US\$4.1 million. Funds borrowed under this overdraft credit line were required to be repaid not later than March 6, 2008. This facility expired prior to the date of this Prospectus.

The total outstanding amount of loans payable to the Krasnodar branch of Sberbank as of December 31, 2007, was US\$164.9 million.

On October 24, 2007, our subsidiary Tander also entered into an agreement with the Severokavkazkiy branch of Sberbank with respect to a US\$43.4 million credit line facility. The drawdowns under this facility are to be drawn within the specified total limit on the basis of separate agreements, each at a fixed interest rate. Funds borrowed under this facility must be repaid not later than April 23, 2009. As of December 31, 2007, the aggregate amount outstanding under this facility was US\$43.4 million.

#### *Finance leases*

We have entered into finance leases with LLC "Hansa Leasing", LLC "Raiffeisen-Leasing", CJSC "DeltaLeasing", CJSC "Europlan" and LLC "Resotrust" for the lease of vehicles, with an average remaining lease term as of December 31, 2007 of 2.45 years. The average borrowing rates on these leases for the years ended December 31, 2005, 2006 and 2007 were 19%, 23% and 18% respectively. Our obligations under these leases are denominated in Roubles, US Dollars and euro, while the lease payments are denominated in Roubles. The interest rates on these leases are fixed at the commencement of the lease term, and all leases are on a fixed repayment basis.

#### *Capital Expenditures*

We made capital expenditures, which consist of all additions to property, plant and equipment, of US\$87.1 million, US\$314.8 million and US\$606.5 million in the years ended December 31, 2005, December 31, 2006 and December 31, 2007, respectively. We funded our capital expenditures in the years ended December 31, 2005, 2006 and 2007 in part from cash from operations and in part from funds raised in our initial public offering and through the issue of bonds, bank borrowings and finance leases.

Our capital expenditures during the years ended December 31, 2005, 2006 and 2007 have principally resulted from the rapid expansion of our convenience store operations, the significant increase in the number of convenience stores that we own, the construction of new and the modernization of existing distribution centers and, beginning in the year ended December 31, 2006, purchases of land plots for, and construction of, hypermarkets.

The following table summarizes our capital expenditures in the years ended December 31, 2005, 2006 and 2007.

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>(US\$ in millions)</i>		
Land	—	2.9	29.4
Buildings	—	—	0.0
Machinery and equipment	32.3	62.7	71.1
Other assets	0.7	25.8	13.8
Construction in progress	45.4	209.4	456.7
Equipment under finance leases	8.7	14.0	35.5
<b>Total capital expenditures</b>	<b>87.1</b>	<b>314.8</b>	<b>606.5</b>

In the year ending December 31, 2008, we currently plan to make capital expenditures of approximately US\$720-850 million, depending on market conditions. We currently expect to fund the foregoing capital expenditures from the net proceeds from the Share Issue, the proceeds of additional borrowings, finance leases and from cash from operations. See “*Liquidity and Capital Resources*”.

In the medium term, we expect to continue to have high levels of capital expenditures as we plan to further expand our chain of hypermarkets, make sufficient capital expenditures to open between 200 and 400 convenience stores each year and continue to expand our logistics system to be able to support the growth in our convenience store and hypermarket operations.

### ***Contractual Obligations and Commercial Commitments***

The following table sets forth our aggregate contractual obligations and commercial commitments, excluding obligations under agreements with our suppliers, as of December 31, 2007 and the payments due by period under such obligations and commitments.

	<b>As of December 31, 2007</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
	<i>(US\$ in millions)</i>				
Long-term and short-term loans <sup>(1)</sup>	424	411	14	0	0
Bonds <sup>(2)</sup>	232	85	0	147	0
Finance leases	36	13	21	2	0
Capital expenditure commitments (excluding finance leases) <sup>(3)</sup>	21	21	0	0	0
Operating leases	196	90	64	34	8
Other agreements	0	0	0	0	0
<b>Total contractual obligations and commercial commitments<sup>(4)(5)</sup></b>	<b>909</b>	<b>620</b>	<b>98</b>	<b>183</b>	<b>8</b>

(1) This amount includes interest payable. Further, the loans are subject to specific repayment terms and any default on the repayments could result in the acceleration of these payments.

(2) This amount represents two tranches of bonds listed on MICEX, which were issued in 2007 and 2005. These bonds have a fixed maturity date of November 2008 and March 2012.

(3) Capital expenditure commitments represent payments expected to be made under contracts in existence as of December 31, 2007 for the acquisition of property, plant and equipment.

(4) This contractual obligations and commercial commitments table does not reflect purchase orders entered into in the normal course of business or long-term commitments for normal purchases and sales.

(5) This contractual obligations and commercial commitments table does not include amounts relating to deferred tax liabilities. Due to uncertainty regarding the timing of payments associated with these liabilities, we are unable to make a reasonable estimate of the period for which these liabilities might be paid.

### ***Critical Accounting Policies***

In the application of our accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that we consider to be relevant. Actual results may differ from these estimates.

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment, impairment of assets and taxation.

#### ***Useful Economic Life of Property, Plant and Equipment***

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

We periodically review the appropriateness of the useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to us, historic information on similar assets and industry trends.

Changes in the useful economic life of property, plant and equipment will be recognized prospectively in the income statement.

#### ***Impairment of Assets***

We review the carrying amounts of our assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent

cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilizing the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products. A critical assumption within our cash flow model is that the rapid growth in the Russian economy will continue leading to increases in real disposal income and wages that are consistent with those experienced in the last three years. No improvements in operating margins or working capital are assumed.

Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

#### *Taxation*

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

#### ***Disclosures about Market Risk***

##### *Interest Rate Risk*

We do not have a significant exposure to interest rate risk with respect to our outstanding obligations because the bonds we issued and most of our other long-term borrowings have fixed interest rates. As of December 31, 2007, the total amount outstanding, including accrued but unpaid interest, on our variable interest rate instruments was US\$100.7 million, of which US\$7.5 million were obligations maturing in 2009 or thereafter. We are, however, exposed to interest rate risk on all borrowings that are short-term in nature (exposing our refinancing activities to risk associated with changes in the applicable interest rate). We do not hedge our interest rate risk.

##### *Foreign Currency Risk*

Foreign currency risk is the risk that our financial results will be adversely impacted by changes in exchange rates to which we are exposed. With the exception of certain finance leases which are denominated in US Dollars and euro, all of our indebtedness is denominated in Roubles. Where the finance leases are denominated in US Dollars and euro, payments made under the leases are settled in Roubles, based on the exchange rate as at the date of settlement. With the exception of one contract with a Ukrainian brewery, all payments on our contracts related to purchases of goods to be resold by us are also in Roubles. Moreover, more than 80% of the goods sold by us are produced on the territory of the Russian Federation. We do not hedge our foreign currency risk.

##### *Credit Risk*

We are exposed to credit risk on relatively little of our total revenue, as most of our sales are on a cash basis. However, we make advances to some of our suppliers in the ordinary course of business and, accordingly, we bear credit risk associated with the potential inability of such suppliers to either deliver goods for which we have already made payments or return the money advanced to them. We also bear credit risk on our cash and cash equivalents and short-term investments. We do not hedge our credit risk.



## RUSSIAN FOOD RETAIL INDUSTRY

*All data referenced below has been sourced from publicly available information. While we have accurately extracted this data, it has not been independently verified by the Company, the Selling Shareholder or the Managers.*

*Where all the data in one paragraph is from the same source, that source is shown in parentheses at the end of the relevant paragraph.*

### Overview

#### **Relevant Demographics**

According to a Rosstat estimate, as of January 1, 2007, Russia had a population of 142.2 million, of which approximately 73% was urban population. As of that date, approximately 81.6% of the population lived in the western part of the country in five of the seven federal districts (the Central Federal District, the North-Western Federal District, the Southern Federal District, the Volga Federal District and the Urals Federal District). These federal districts accounted for approximately 84.3% of national retail turnover in 2006. The remaining two federal districts (the Siberian Federal District and the Far East Federal District) are significantly less densely populated and accounted for approximately 18.4% of the total Russian population as of January 1, 2007 and approximately 15.7% of the national retail turnover in 2006. (Source: Rosstat)

#### **Consumer Spending and Retail Market**

Since the 1998 financial crisis in Russia, the Russian economy has experienced economic growth, with declining consumer price inflation and decreasing unemployment levels. Unemployment has decreased from 9.8% at the end of November 2000 to 5.9% at the end of November 2007. Real disposable income and real salary levels have grown very rapidly, with real disposable income increasing by an average of 11.8% per year during the 2000 to 2006 period (including the growth in 2000) and real salaries increasing by an average of 14.9% per year during the same period. The nominal average monthly salary in Russia increased to US\$395 in 2006 from US\$79 in 2000. (Source: Rosstat)

The Russian retail market is one of the most dynamic sectors of the Russian economy. According to Rosstat, retail trade turnover at constant prices in Russia grew by an average of 11.1% per year during the 2000 to 2006 period, reaching RUB 8,690.3 billion in 2006, with an average growth of 9.4% per year in the food products segment during the same period. Purchases of food products reached RUB 3,943.9 billion in 2006, or 45.4% of the total retail trade turnover.

According to Euromonitor International (*Retailing—World; Euromonitor International: Global Market Insight, May 2007*), consumer expenditure on food accounted for 40% of household income in Russia compared with around 13% in Western Europe. This is due primarily to the average income level in Russia being much lower than in Western Europe. Some industry observers believe that Rosstat tends to underestimate significantly the size of the retail market as a whole, as well as each of its segments. Underlying this belief are views that a large number of non-registered retail transactions take place in open-air markets and through small individual trades and that significant volumes of transactions may be conducted in cash or other forms of exchange, and thus are not always reported to relevant tax or other authorities.

The A.T. Kearney 2007 Global Retail Development Index, which ranked the attractiveness of national retail markets in the 30 largest emerging countries based on a range of 25 macro-economic and retail-specific variables, ranked the Russian retail market as the second most attractive retail market for investment.

#### **Regional Breakdown of the Russian Retail Market**

Within the Central Federal District, Moscow is often viewed as a separate retail market due to its size and the relatively high levels of disposable income among the population. According to Rosstat, in 2006, the retail turnover in Moscow represented approximately 20.9% of the national retail turnover, with an average retail turnover *per capita* of approximately RUB 174,066, compared with the national average retail turnover *per capita* of only approximately RUB 61,103. However, the retail turnover in Moscow has declined as a percentage of the national retail turnover from approximately 29.0% in 2000 to

approximately 20.9% in 2006 due, in part, to growth in the level of disposable income of the population outside of Moscow. We believe that the gap between the national average retail turnover *per capita* and the average retail turnover per capita in Moscow is likely to narrow in the coming years as the level of disposable income of the population outside of Moscow continues to grow.

The table below sets out the percentage of national retail turnover in each federal district (excluding Moscow for the Central Federal District) and in Moscow.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Moscow	29.0	28.9	27.5	26.1	24.3	22.5	20.9
Central Federal District (excluding Moscow)	13.3	12.9	12.9	13.2	14.2	14.4	14.9
North-Western Federal District	9.0	9.2	9.3	9.1	9.3	9.6	9.4
Volga Federal District	16.5	16.4	16.5	16.7	16.7	16.9	17.4
Far East Federal District	4.2	4.1	4.1	4.2	4.1	4.1	4.1
Siberian Federal District	11.0	11.1	11.4	11.7	11.6	11.7	11.7
Southern Federal District	9.8	9.9	10.4	10.5	11.1	11.5	11.6
Urals Federal District	<u>7.2</u>	<u>7.5</u>	<u>7.9</u>	<u>8.5</u>	<u>8.7</u>	<u>9.3</u>	<u>10.0</u>
<b>Total</b>	<b><u>100</u></b>	<b><u>100</u></b>	<b><u>100</u></b>	<b><u>100</u></b>	<b><u>100</u></b>	<b><u>100</u></b>	<b><u>100</u></b>

Source: Rosstat

### **Retail Food Selling Space in Russia**

The availability of retail food selling space in Russia is low compared to the United States and the European Union countries. The difference is even greater with respect to modern food selling space, as a significant part of food selling space in Russia is represented by Soviet-era, old-fashioned shops, in which sales have traditionally been carried out through over-the-counter service. This is particularly true for the food selling space outside of the largest Russian cities.

Both Russian and foreign investors have made significant investments in the refurbishment and modernization of the existing food retail selling space as well as in the construction of new food retail selling space. The traditional, out-of-date formats are being gradually replaced by modern formats. However, the percentage of modern retail food selling space in Russia compared to the total retail food selling space is still much smaller than in the more developed countries. The combined selling space of hypermarkets, supermarkets, discounters and convenience stores in Russia in 2006 was just 13.1 million square meters, or 39.9% of total selling space of food retailers according to Euromonitor International's study of retailing in Russia (*Retailing—Russia; Euromonitor International: Country Market Insight, July 2007*).

### **Russian Food Retail Market**

#### ***Food Retail Formats***

##### *Traditional Food Retail Formats*

Traditional format Russian food stores include:

*Large OTC stores:* Large OTC stores are stores with three or more check-out points. These stores typically have over-the-counter service rather than self-service, with customers unable to touch the products.

*Small OTC stores:* Small OTC stores are stores with two or less check-out points. These stores typically have over-the-counter service rather than self-service, with customers unable to touch the products.

*Kiosks & pavilions:* Kiosks are small, freestanding outlets often located on a sidewalk and with no customer entrance. Kiosks typically sell basic food products such as drinks, snacks and non-frozen food products. Pavilions are similar to kiosks but have customer entrances and typically sell a limited range of food products, including fresh food products.

*Street vendors:* Street vendors are individuals selling a very limited range of food products from tables or stalls set up on sidewalks.

*Open-air markets:* Open-air markets are collections of freestanding stalls and booths that sell to retail and small wholesale customers. They vary widely in size and may only sell goods on particular weekdays.

#### *Modern Food Retail Formats*

Modern format Russian food stores include:

##### *Discounters and convenience stores*

Discounters and convenience stores are stores that offer a narrower range of products than would be found in a standard supermarket and operate with price as the key component of their marketing.

The largest food retailers operating in this segment of the market in Russia are X5 Retail Group N.V., which operates a chain of discounters under the brand name Pyaterochka, us, OJSC Dixy Group, which operates a chain of discounters under the brand name Dixy, and OJSC Trading House “Kopeyka,” which operates a chain of discounters under the brand name Kopeyka. Pyaterochka is a discounter, which, according to information on its website, had 674 company-owned discount stores (309 of which were located in Moscow, 244 in St. Petersburg and 121 in other regions in Russia) as of December 31, 2007. In addition, its franchisees operated 680 Pyaterochka stores as of the same date. In May 2006, Pyaterochka merged with the supermarket and hypermarket chain Perekrestok to form Russia’s largest food retail chain. Dixy is a discount retailer, which, according to information on its website, operated 375 discount and convenience stores in three federal districts in Russia (the Central Federal District, the North-Western Federal District and the Urals Federal District) as of March 1, 2008. Kopeyka is a discount retailer, which, according to information on its website, operated a total of 438 discount stores at the beginning of 2008. These stores were located in the Central Federal District and six regions of the Volga Federal District. In addition, according to information on its website, its franchisees operated approximately 22 Kopeyka stores.

##### *Supermarkets*

Infoline (“*State of Retail Trade in 18 Regions of Russia: 2007*”) defines supermarkets as stores with a selling area of between 1,000 square meters and 2,500 square meters. Supermarkets are typically located in city centers and in residential areas of large cities. According to Infoline (“*State of Retail Trade in 18 Regions of Russia: 2007*”), the largest food retail chains operating in this segment of the Russian market are Perekrestok with 148 supermarkets, Seventh Continent with 117 supermarkets, Paterson with 96 supermarkets, Grossmart with 42 supermarkets and Ramstore with 39 supermarkets, in each case as of June 30, 2007.

Because of their location, expensive interior, wide product range (frequently supermarkets have in-store bakeries and deli counters) and additional services offered, supermarkets generally have higher capital expenditures per store and a more labor-intensive retail format than discounters or convenience stores. Therefore, compared to discounters or convenience stores, products at supermarkets tend to be more expensive and supermarkets tend to target higher income customers.

##### *Hypermarkets and cash-and-carry stores*

Due to the high degree of similarity between hypermarkets and cash-and-carry stores, these are often considered to be in the same category of retail format. Smaller versions of hypermarkets (those with selling spaces of approximately 2,500 to 5,000 square meters) are becoming increasingly popular in Eastern Europe and Russia. According to Infoline (“*State of Retail Trade in 18 Regions of Russia: 2007*”), the largest food retail chains operating in this segment of the Russian market are Metro Cash and Carry with 32 cash-and-carry stores, Alpi with 26 hypermarkets, Karusel with 22 hypermarkets, Ramstore with 21 hypermarkets, Lenta with 18 hypermarkets, Auchan and O’Key with 14 hypermarkets each and Perekrestok with 12 hypermarkets, in each case as of June 30, 2007.

##### *International Retailers*

According to Infoline (“*Retail Chains: IV Quarter of 2007*”), as of December 31, 2007, three retailers based outside of Russia (Metro Cash and Carry, Auchan and Ramstore) are listed in its rating among the ten largest food retailers in Russia (although Infoline does not provide revenue numbers for any of these chains and Ramstore’s position in this rating in the future might be affected by the sale of 14 Ramstore supermarkets to Auchan at the end of 2007).

To date, non-Russian food retailers have principally operated large space stores; either hypermarkets (such as Auchan), cash-and-carry stores (such as Metro Cash and Carry) or supermarkets (such as Paterson and Ramstore).

We believe that no major Western discounter or convenience store chain has entered the Russian discount food retail market. However, some Western retailers have aggressively entered other markets in Eastern Europe. We believe a number of factors may have discouraged non-Russian retailers from entering the Russian food retail market. These factors include the shortage of suitable retail properties, the difficulty of obtaining quality sites for development, the shortage of reliable contractors and the limited purchasing power these non-Russian retailers may have in the Russian retail market.

## BUSINESS

### Overview

We operate convenience stores and hypermarkets in the Russian Federation under the “Magnit” brand name. We believe that we are the largest food retailer in Russia by the number of stores that we operate and one of the largest by volume of sales. Based in Krasnodar, in the Southern Federal District, we have grown rapidly in recent years, expanding our operations to five out of the seven federal districts in Russia with store locations in more than 700 cities and towns. As of December 31, 2007, we operated 2,194 convenience stores with an aggregate selling space of approximately 640,068 square meters, three hypermarkets with an aggregate selling space of approximately 11,590 square meters and eight distribution centers with an aggregate warehousing space of approximately 137,561 square meters. As of the same date, more than 70% of our convenience stores and two of our three hypermarkets were located in cities and towns with a population of less than 500,000 people, where we believe there is generally less competition from the other major Russian food retailers, there is a larger proportion of low and middle-income consumers who are core target customers of our convenience stores and rent and labor expenses are lower than in the largest Russian cities. As of March 15, 2008, we had increased the number of our convenience stores to 2,219 and the number of our hypermarkets to five.

Our convenience stores offer approximately 1,300 to 4,300 SKUs and our hypermarkets offer approximately 9,500 to 13,200 SKUs. As of December 31, 2007 our convenience stores and hypermarkets had, on average, 292 square meters and 3,863 square meters of selling space, respectively.

Our convenience stores principally target low and middle-income consumers living within 500 meters of each store. We believe that our convenience stores offer customers low prices (relative to traditional and modern retail formats other than hypermarkets), an attractive product mix and a functional store layout and are conveniently located close to customers’ homes. As of March 15, 2008, we owned 566 of our convenience stores and leased the remaining 1,653 stores. We expect that the proportion of convenience stores that we own will remain at approximately the same level in the near and medium term.

Our hypermarkets target customers who live in the areas near our hypermarkets as well as consumers who live farther away but may travel by car to one of our hypermarkets to do their shopping. We opened our first hypermarket in Krasnodar in October 2007. Most of our hypermarkets are located in towns with populations of less than 200,000 where they currently face little or no competition from other hypermarkets. Most of our hypermarkets are located in or near the center of the relevant city or town and are therefore easily accessible. In comparison with our convenience stores, our hypermarkets offer a much larger selection of products, including a significantly greater share of non-food and long shelf-life food products. As of March 15, 2008, we owned one out of five hypermarkets which we operated and were in the process of receiving title to the remaining four hypermarkets. As of that date, we also owned two out of five land plots on which our hypermarkets are located, with two of the remaining three land plots leased from municipal authorities on a long-term basis and the remaining land plot being transferred into our ownership by the company that built the hypermarket for us. As of that date, an additional 29 hypermarkets were under construction and we owned an additional 15 land plots and leased on a long-term basis one additional land plot on which we currently plan to construct hypermarkets.

Our in-house logistics system consists principally of eight distribution centers located in four out of the five federal districts in which we operate and our own fleet of 899 delivery trucks (as of March 15, 2008). This system allowed us to distribute through our distribution centers goods that we estimate accounted for approximately 71% of our cost of goods sold in 2007.

In 2007, we had total revenue of US\$3,676.6 million, EBITDA of US\$219.2 million and profit for the year of US\$97.4 million. Our gross margin, EBITDA margin and net margin were 19.9%, 6.0% and 2.6%, respectively, in 2007.

### History and Development

In 1994, Mr. Sergey Galitskiy and his partners established a wholesale distributor of cosmetics and household products in Krasnodar. In 1995, as a result of the development of the business, they established Limited Liability Company Tander, which subsequently became Closed Joint Stock Company Tander (“**Tander**”). Tander operated a small retail chain, which in 1996 consisted of 30 outlets located within the Krasnodar territory (*krai*). By 1997, Tander had also established eight branches engaged in wholesale distribution in the Southern Federal District and the Volga Federal District.

In 1997, through Tander, we expanded into the food wholesale market and, in 1998, we opened our first distribution center in Krasnodar. In November 1998, we opened our first convenience store. By the end of 1999, we had opened 20 convenience stores operating under the “Magnit” brand name.

Since 1999, we have expanded our convenience store operations across five federal districts in Russia. The following table sets out the number of convenience stores in each of the federal districts in which we currently operate and the total number of our convenience stores at the end of each year, beginning with 1998 when we entered the Russian food retail market.

<b>Federal District</b>	<b>As of December 31,</b>									
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Southern	1	18	27	133	270	387	550	684	783	888
Volga		2	1	19	53	114	214	368	536	628
North-Western				1	5	9	26	61	84	88
Central					40	100	224	379	461	545
Urals								8	29	45
<b>Total</b>	<b>1</b>	<b>20</b>	<b>28</b>	<b>153</b>	<b>368</b>	<b>610</b>	<b>1,014</b>	<b>1,500</b>	<b>1,893</b>	<b>2,194</b>

In January 2006, in anticipation of our initial public offering, Closed Joint Stock Company Magnit was transformed into an open joint stock company and became our holding company. We completed our initial public offering in May 2006, following which our Ordinary Shares were admitted to trading on RTS and on MICEX.

In 2006, we decided to develop a multiformat operational model by adding the hypermarket format to our convenience store business. We opened our first hypermarket in Krasnodar in October 2007.

### **Competitive Strengths**

We believe that the following strengths have contributed to our success and will continue to constitute our competitive strengths, supporting our strategy and contributing to further improvements in our results of operations and financial condition.

#### ***Focus on Smaller Population Centers***

Our business model is based on price leadership, principally in cities and towns with a population of less than 500,000 people. We focus on such cities and towns due to generally less intense competition from other food retail chains, populations with a larger proportion of low and middle-income consumers who are core target customers of our convenience stores, and generally lower rent and labor expenses in these locations than in larger Russian cities. While most large food retailers are now expanding their operations to smaller population centers, we believe that we have a first-mover advantage in these cities and towns and are therefore well positioned to successfully compete in an increasingly competitive environment. We believe that we will continue to operate successfully in such locations due to our considerable knowledge of local markets, the benefits from economies of scale in purchasing and contracting in those locations in which we have significant market presence, strong brand recognition and an efficient in-house logistics system capable of supporting operations across most of the European part of Russia.

#### ***Leading Market Position with Broad Geographic Coverage***

We believe that our leading position in the markets we serve will enable us to benefit from the expected rapid growth of the Russian food retail market and provides us with a strong platform to pursue further expansion of our operations.

The scale of our operations makes us one of the largest customers for many of our suppliers and enables us to obtain discounts, rebates, promotional bonuses and other favorable purchasing terms from them, which in turn allows us to provide competitive prices to our customers. In addition to purchasing and contracting, we are also able to achieve economies of scale in logistics and human resources. We believe we have a strong platform from which to continue to rapidly increase the number of our convenience stores throughout the European part of Russia and to attract highly qualified personnel, including at the senior management level. Our track record of opening more than 300 new convenience stores in every year since 2004 demonstrates our ability to roll out new stores rapidly.

We have a significant presence in most regions of the European part of Russia that we believe positions us well to capitalize on the anticipated strong growth in consumer spending in areas outside of the largest

Russian cities. In many cities and towns, we have been the first retailer to introduce a modern store format, which has facilitated access to desirable locations for our stores and enabled us to develop a stable customer base.

### ***Strong Platform to Continue Rapid Expansion of Our Hypermarket Operations***

We believe we have a strong platform to develop a leading hypermarket chain in the European part of Russia. In pursuing this goal, we are able to rely on our existing brand name recognition and customer awareness, our ability to obtain favorable purchasing terms from our suppliers due to the large and growing scale of our operations and our existing efficient in-house logistics system. We have substantial Russian retail market expertise, which we have further strengthened by hiring a team of hypermarket specialists to manage execution risks. We also benefit from a large and growing portfolio of favorably located land plots for the construction of our new hypermarkets.

### ***Efficient Logistics System***

Our integrated logistics system has facilitated the rapid growth of our convenience store and hypermarket operations. As of March 15, 2008, we operated eight distribution centers with a total warehousing capacity of approximately 137,561 square meters, employing modern automated warehousing management systems, a highly automated stock replenishment system and a fleet of 899 delivery trucks. In 2007, we distributed through our distribution centers products that we estimate accounted for approximately 71% of our cost of goods sold, which we believe allowed us to lower our costs due to the absence of distributors' markups on goods that we purchased directly from producers and higher discounts from suppliers as a result of centralized purchasing and delivery operations.

This in-house logistics system also allows us to reduce our dependence on distributors and third party transportation service providers, operate with greater control over the timing of deliveries to our stores and more effectively manage our supply chain. In addition, this centralized logistics system has enabled us to achieve significant savings in the costs of receiving and stocking products.

### ***Sophisticated IT Systems***

Our operations are supported by sophisticated IT systems that provide our management with a wide range of reliable data management tools. We are able to monitor and analyze much of the information collected across our whole chain of stores on a daily basis, which allows us to manage the business in a timely and effective manner. Our IT systems support most aspects of our business, including the logistics systems, cash and inventory management, centralized purchasing and pricing, in-store systems, human resources and other administrative and reporting functions. We believe that our scalable IT systems, which currently have excess capacity to process much larger volumes of data, enable us to quickly identify and react to changes in customer preferences by changing our product mix and pricing, including between regions or stores, and to effectively monitor and manage store performance. These systems also allow us to improve the timeliness and quality of our reporting, with our most significant financial and operational results now being provided to the market on a monthly basis. Most of our IT systems are custom built and we have built redundancies into many of our IT systems and databases, which we believe significantly reduces the risk of technical failure of such systems or databases.

### ***Experienced Management Team***

We have a strong and experienced management team, which has detailed knowledge of and experience in the Russian food retail sector and provides us with the skills and expertise required to implement our planned expansion of convenience store and hypermarket operations. Our senior management team consists of 13 senior managers with an average of over nine years of experience with us. Many of our senior managers have been involved in the development of our business since its inception, as managers and shareholders, and have successfully overseen the rapid expansion of the business. For further details concerning our management, see "*Management and Corporate Governance*."

### ***Strong Financial Performance***

We have produced strong financial results over the last few years, growing revenues by a cumulative 133.0% from 2005 to 2007 and improving gross margin and EBITDA margin from 16.9% and 4.9%, respectively, in 2005 to 19.9% and 6.0%, respectively, in 2007. This performance has been achieved in large part through significant new investment in the expansion of our chain of stores in the European part of Russia, which we believe will now support fast growth of retail revenue and lead to further improvements in our profitability.

## **Strategy**

Our primary strategic objective is to increase shareholder value by strengthening our position as a market leader in the Russian food retail market. To achieve this objective, we focus on the following key strategies:

### ***Grow Our Convenience Store Operations in Existing Markets and Expand Selectively into New Geographic Areas in Russia***

Historically, we have focused on expanding our convenience store operations into new geographic areas in the European part of Russia. While this strategy has resulted in a chain of convenience stores across a wide geographic area and has given us a competitive advantage over other large food retailers, our focus now is not only on further geographic expansion, but also on increasing the penetration of our convenience store operations in those areas in which we already have a significant presence.

We believe we have significant growth potential in our current areas of operation because many cities and towns in Russia remain under-penetrated by modern format food retailers and because of the growing disposable income of Russian consumers, which allows us to open new convenience stores in less populous locations. We believe that our convenience stores can operate successfully in almost any town in Russia with a population of at least 7,000 people, in which larger retail formats such as hypermarkets or supermarkets generally are not viable. To the extent that consumers' disposable incomes and spending increase further, we may be able to operate profitably in even smaller towns. We plan to continue to focus on cities and towns with a population of up to approximately 500,000 people, where competition from the other major food retailers is generally less intense, there is a larger proportion of low and middle-income consumers who are core target customers of our convenience stores and rent and labor expenses are lower than in the largest Russian cities.

The key factors influencing the expansion of our convenience store operations beyond the regions in which we currently operate include the proximity of proposed new stores to existing distribution centers, the ability to find suitable retail space, the level of competition from other modern format food retailers, the level of disposable income of consumers in a particular location or region and the expected growth in consumer spending in such location or region. In our expansion into new regions, which involves progressively establishing new convenience stores and, over time, distribution centers, we will continue to rely on, and seek to further refine, our sophisticated modeling techniques for evaluating the factors that contribute most to the success or failure of any newly opened store and impact the level of profitability of such new stores.

In the medium term, we plan to continue to maintain a high level of growth in our convenience store operations, adding between 200 and 400 new convenience stores each year. When opening new convenience stores in all geographic areas, where possible and economically rational we will seek to acquire suitable premises for such stores or acquire land plots and then construct new convenience stores on such plots. We expect that we will continue to lease suitable retail space for a large portion of our new convenience stores, particularly in those regions in which we do not currently have a significant presence.

### ***Expand Our Hypermarket Operations***

We opened our first hypermarket in October 2007, operated three hypermarkets as of December 31, 2007 and had five hypermarkets as of March 15, 2008. As of March 15, 2008, we had an additional 29 hypermarkets under construction, most of which we expect to be completed by the end of 2008. In addition, as of March 15, 2008, we owned an additional 15 land plots and leased on a long-term basis one additional land plot on which we currently plan to construct hypermarkets.

In the medium term, we plan to continue to open most of our hypermarkets in cities and towns with a population of between 50,000 and 500,000 inhabitants, in which we believe hypermarkets can operate profitably and face less intense competition from the major hypermarket chains than in the largest Russian cities. Depending on the size of the city or town in which a hypermarket is to be opened, the population density in the area around such hypermarket and other local conditions, we expect to open new hypermarkets in one of three principal formats: small (with a total space of 3,200-4,700 square meters and a selling space, including selling space designated for leases to third parties, of 2,000-2,500 square meters), medium (with a total space of 11,100-11,700 square meters and a selling space, including selling space designated for leases to third parties, of 6,000-8,100 square meters) and large (with a total space of up to 21,000 square meters and a selling space, including selling space designated for leases to third parties, of up to 12,500 square meters).



We believe that being a first-mover in many of our target locations, particularly in smaller towns, will give us an advantage over other hypermarket chains that might consider operating in the same locations, as the presence of more than one hypermarket in such towns may not be economically sustainable. In addition, the cost of land plots for hypermarket construction, particularly of those located in or near the center of the respective city or town that are of the greatest value to us, are generally much lower in cities and towns with a population of 50,000 to 500,000 people in comparison with the largest Russian cities. We also base our strategy with respect to locations of new hypermarkets on strong growth in disposable income of, and consumer spending by, the population living outside of the largest Russian cities and the expectation that this trend will continue in the future, which we believe will help us to expand the customer base and increase the average ticket as our hypermarket operations develop.

### ***Implement Additional Measures to Improve the Profitability of Our Operations***

We plan to improve the profitability of our operations through, among other things, further increasing the share of products distributed through our own logistics system, further increasing the proportion of our private label products to our total retail revenue, improving the product mix in our convenience stores and achieving synergies in the operation of our convenience stores and hypermarkets. We also expect that the increase in the scale of our operations will give us additional opportunities for cost savings in various areas of our operations and will help us reduce fixed costs as a percentage of revenue.

We have created an efficient in-house logistics system using modern automated warehousing and our own transportation solutions and expect to achieve significant cost savings by reducing the involvement of distributors and third party transportation service providers in the delivery of goods from producers to our stores. We distributed through our distribution centers products that we estimate accounted for approximately 71% of our cost of goods sold in 2007. We believe that the capacity of the systems, equipment and technologies that we currently have in place should enable us to increase the share of products delivered to our stores through our own distribution centers to 85%, which we aim to achieve in the medium term. Based on our current range of SKUs and our current operations, we believe that further increases beyond 85% would be unlikely to result in significant additional cost savings.

We have an extensive range of private label products that are popular with some of our customers as they are priced lower than similar brand-name products. Our gross margins on private label products are, on average, higher than on other products. The increases in the proportion of revenue from private label products to our total retail revenue contributed to the growth in our gross margins in 2006 and 2007. We intend to further expand our range of private label products and increase the proportion of revenue from such products to our total retail revenue, which we believe will continue to have a positive effect on our gross margins.

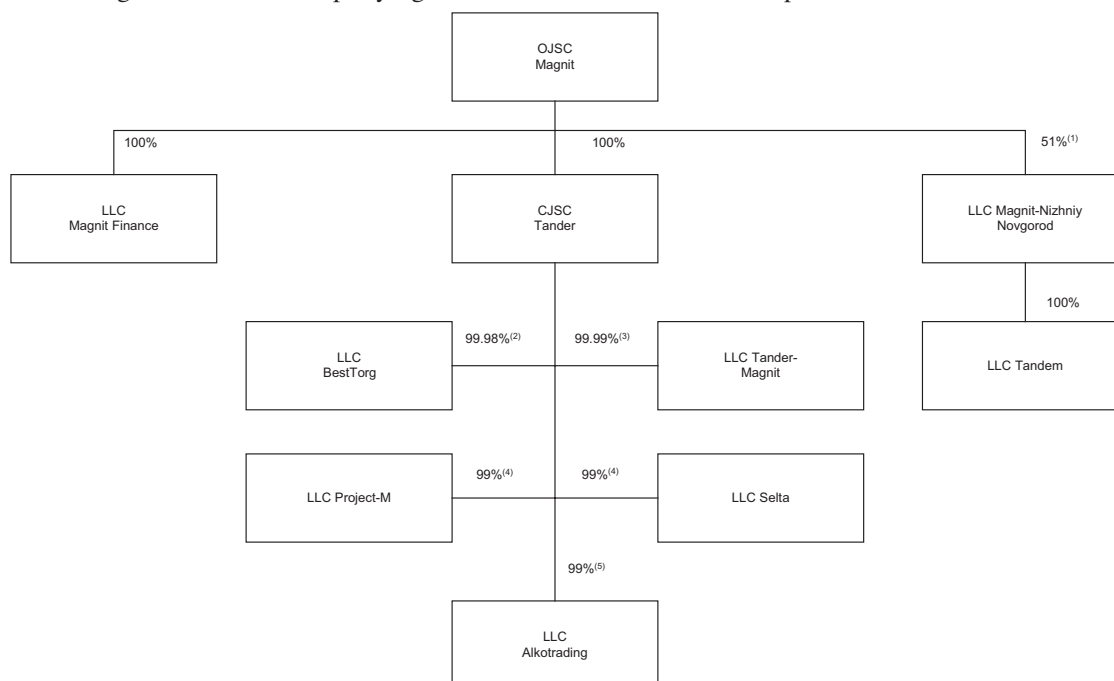
As the disposable income of Russian consumers increases, they tend to become interested in purchasing more fresh food products (such as dairy and bakery products, fruits and vegetables), ready-made meals produced in-store and other premium food products. We generally realize a higher gross margin from sales of these types of products and we intend to continue expanding their share in the product mix available in our stores. In addition, we believe that the increase in the range of fresh food products and ready-made meals in our convenience stores encourages more frequent visits by our customers, which generally improves the profitability of our operations, as well as customer satisfaction and allows us to compete more effectively with large format food retailers.

With the opening of our hypermarkets in the areas in which we already operate convenience stores, our penetration of the local food retail markets will increase, which we believe will allow us to more fully leverage the economies of scale in purchasing and contracting, logistics and human resources, reducing the costs of our operations.

## Organizational Structure

The Company is an open joint stock company incorporated under the laws of the Russian Federation and is our holding company. We operate through a number of subsidiaries incorporated in the Russian Federation, which are our operating companies, providers of certain services for our business, as well as holders of certain licenses material for our business.

The following chart and accompanying table describe our current corporate structure.



- (1) The other 49% participation interest in LLC Magnit-Nizhniy Novgorod is ultimately held by three managers of LLC Tandem who were former owners of LLC Tandem prior to the creation of the joint venture between us and the entities beneficially owned by these managers.
- (2) The remaining 0.02% participation interest in LLC BestTorg is held by LLC Alkotrading.
- (3) The remaining 0.01% participation interest in this entity is held by LLC Alkotrading.
- (4) The remaining 1% participation interest in these entities is held by LLC Alkotrading.
- (5) The remaining 1% participation interest in LLC Alkotrading is held by the Company directly.

The activities of the subsidiary entities of the Company are set out in the table below.

<u>Subsidiary name</u>	<u>Summary of primary activities</u>
LLC Magnit Finance	Issuer of Rouble-denominated bonds.
CJSC Tander	Food retailer and wholesaler.
LLC Tander-Magnit	Food retailer in the Moscow region.
LLC Selta	Provider of transportation services.
LLC BestTorg	Food retailer in Moscow.
LLC Project-M	Currently, non-operating entity. Will be applying for a license to operate boiler rooms.
LLC Alkotrading	Holder of licenses for sales of alcohol in the Stavropol region.
LLC Magnit-Nizhniy Novgorod	Holding company for participatory interests in LLC Tandem.
LLC Tandem	Food retailer in Nizhniy Novgorod.

Tander is our primary operating company. For a discussion of matters relating to our corporate governance, see “*Management and Corporate Governance*.”

## Retail Operations

### General

We engage in the retail sale of food, beverages and non-food products in Russia through our chain of “Magnit” convenience stores and hypermarkets. In 2007, our total revenue was US\$3,676.6 million, of which US\$3,647.6 million, or 99.2%, was retail revenue.

We also conduct limited food wholesale operations and, in 2007, wholesale revenue amounted to US\$29.0 million, or 0.8% of our total revenue. As this was always a non-core business for us, we reduced our wholesale operations significantly in the second half of 2007 and wound them down almost completely by the end of that year.

As of March 15, 2008, we operated 2,219 convenience stores with a total selling space of 651,043 square meters and five hypermarkets with a total selling space of approximately 19,990 square meters in 734 cities and towns in five of the seven federal districts in the Russian Federation. We do not franchise our stores. We believe that keeping the operation and management of all of our convenience stores and hypermarkets within our control enables us to take full advantage of market growth and to avoid the risk of mismanagement by franchisees.

### Store Locations

The following map shows the territory of each of the seven federal districts in the Russian Federation, indicating the number of our convenience stores, hypermarkets and distribution centers in each federal district.



CS—convenience stores  
HM—hypermarkets  
DC—distribution centers

As of March 15, 2008, 895, or 40.3%, of our convenience stores and three of our five hypermarkets were located in the Southern Federal District; 637, or 28.7%, of our convenience stores were located in the Volga Federal District; 550, or 24.8%, of our convenience stores and one of our five hypermarkets were located in the Central Federal District; 90, or 4.1%, of our convenience stores and one of our five hypermarkets were located in the North-Western Federal District and the remaining 47, or 2.1%, of our convenience stores were located in the Urals Federal District. As of that date, 593, or 26.7%, of our convenience stores and one of our five hypermarkets were located in cities with a population of over 500,000 and the remaining 1,626, or 73.3%, of our convenience stores and four of our five hypermarkets were located in cities and towns with a population of less than 500,000.

The following table sets out the number of our convenience stores in various locations grouped into three types of population centers (cities with a population of over 1,000,000, cities with a population of between 500,000 and 1,000,000 and cities and towns with a population of less than 500,000) as of March 15, 2008.

	<b>As of March 15, 2008</b>		
	<b>Population<sup>(1)</sup></b>	<b>Number of convenience stores</b>	<b>Percentage of the total number of convenience stores</b>
			(%)
<b>Population of more than 1,000,000 people</b>			
Moscow	10,126,424	7	0.3
St. Petersburg	4,661,219	10	0.5
Nizhniy Novgorod	1,311,252	36	1.6
Samara	1,157,880	31	1.4
Kazan	1,105,289	27	1.2
Chelyabinsk	1,077,174	8	0.4
Rostov-on-Don	1,068,267	50	2.3
Ufa	1,042,437	9	0.4
Volgograd	1,011,417	65	2.9
<b>Population of between 500,000 and 1,000,000 people</b>			
Saratov	873,055	50	2.3
Voronezh	848,752	24	1.1
Tolyatti	702,879	35	1.6
Krasnodar	646,175	80	3.6
Ulyanovsk	635,947	29	1.3
Yaroslavl	613,088	29	1.3
Orenburg	549,361	26	1.2
Penza	518,025	23	1.0
Ryazan	521,560	4	0.2
Naberezhnye Chelny	509,870	2	0.1
Lipetsk	506,114	14	0.6
Astrakhan	504,501	34	1.5
<b>Population of less than 500,000 people</b>		<u>1,626</u>	<u>73.3</u>
<b>Total</b>		<u><b>2,219</b></u>	<u><b>100.0</b></u>

(1) Population data are from All-Russia Population Census-2002 available on the website of Rosstat at <http://www.gks.ru>.

We are by far the largest food retailer in the Southern Federal District and Volga Federal District in terms of the number of stores. We also have the largest number of stores in the Central Federal District, where competition with other large retail chains is particularly intense. Our presence, however, is more limited in the North-Western Federal District, where we trail Pyaterochka and Dixy in terms of the numbers of operating stores, and in the Urals Federal District, in which we have fewer stores than Dixy. We are currently focusing on smaller cities and towns with a population of less than 500,000 people.

As of March 15, 2008, we operated five hypermarkets located in Krasnodar (in the Southern Federal District), Kingisepp (in the North-Western Federal District), Solnechnogorsk (in the Central Federal District), Kamyshin (in the Southern Federal District) and Bataysk (in the Southern Federal District). We are currently planning to build new hypermarkets in cities and towns with a population of less than one million people, principally targeting cities and towns in the European part of Russia with a population between 50,000 and 500,000 people. Most of our existing hypermarkets (four out of five as of March 31, 2008) are located in towns with populations of less than 200,000. While our existing hypermarkets are located in three federal districts, the hypermarkets that were under construction as of March 15, 2009 were located in four federal districts (16 in the Southern Federal District, six in each of the Central Federal District and the Volga Federal District and one in the North-Western Federal District).

## ***Retailing Formats***

We operate two store formats under the “Magnit” brand name: convenience stores and hypermarkets.

### *Convenience stores*

Our typical convenience store is located in a densely-populated area, occupies a stand-alone building or the ground floor of an apartment block and had, on average as of December 31, 2007, a total space of approximately 443 square meters and a selling space of approximately 292 square meters. As of December 31, 2007, our convenience stores offered approximately 1,300 to 4,300 SKUs aimed at low and middle-income customers. In smaller stores in rural areas, our convenience stores offer approximately 2,000 SKUs. In 2007, the average ticket size at our convenience stores was US\$4.76. Our convenience stores typically operate 12 hours a day, seven days a week. Opening times vary depending on the region and local customer preferences. We sell products produced in-store, such as salads and other ready-made meals, in most of our convenience stores.

We believe that the following features attract customers to our convenience stores.

- **Low prices.** Our convenience stores aim to provide the best prices in each local market on approximately 200 household staple SKUs. To understand what these best prices should be, we monitor pricing of the same or similar products at stores of our competitors located near our convenience stores. Based on the results of such monitoring, we believe that prices at our convenience stores are generally lower than prices of the same or similar products at other traditional or modern retail formats, with the exception of hypermarkets. An emphasis on controlling costs, strong bargaining power with suppliers and effective pricing models supports our attractive pricing policy.
- **Convenient locations.** Our store locations allow customers to shop quickly and conveniently. We believe that convenient locations are particularly important in the Russian market as the country’s climate, the relatively low level of car ownership among the population and poor road infrastructure affect the ability of customers to travel.
- **Carefully selected product mix.** The product mix in our convenience stores is carefully selected based on the level of disposable income and preferences of targeted customers in each region and may include different value-added products, such as ready-made meals. We regularly monitor customer preferences to seek to maintain the appropriateness of the product mix. While the number of SKUs offered to customers at our convenience stores has been increasing in recent years, we are currently considering the reduction of the number of SKUs available at our convenience stores from an average of approximately 3,500 to approximately 2,500, principally through the elimination of slow moving items from the product mix in order to improve the efficiency of our operations and make shopping at our stores easier for customers. We are expanding sales of fresh food products (such as dairy and bakery products, fruits and vegetables) and ready-made meals that are produced in-store to encourage more frequent visits by our customers and to improve customer satisfaction.
- **Standardized exterior design and car parking.** We use a clearly visible standardized exterior design. We also often provide car parking space adjacent to our stores.
- **Functional store layout.** The layout of the trading floor of each store is designed to ensure that shopping is convenient for customers. In recent years, with the increasing proportion of new stores constructed to our own specifications, we have increased the average size of our convenience stores and the average selling area in such stores to improve the shopping experience for our customers.
- **High standard of customer service.** We value customer service and provide our staff with training and performance-linked compensation incentives.
- **Increasing customer convenience.** As the transactions in our convenience stores are currently cash transactions only, we have systematically increased the proportion of convenience stores with ATMs, which are provided by third parties.

### *Hypermarkets*

We have built all of our hypermarkets in convenient locations mainly in or not far from the city or town center, close to major transport routes providing convenient access for customers using public transportation and cars. Our hypermarkets target customers who live in the areas near our hypermarkets as well as

customers with cars who live further away but may travel to one of our hypermarkets to do their shopping. A large proportion of hypermarket customers consists of people who visit the hypermarket regularly and treat it essentially as a convenience store offering a larger selection of products. They often complete the majority of their food shopping at our hypermarkets. Another large group of customers includes those living further away from our hypermarkets and visiting the nearest hypermarket on a less frequent basis. Such customers typically spend considerably more per visit and purchase a larger amount of non-food and long-shelf life food products.

The following table sets out information on the location of our hypermarkets, the year when they were opened and the total space and selling space of each store as of March 31, 2008.

	As of March 31, 2008				
	Population <sup>(1)</sup>	Federal district	Year opened	Total space	Selling Space <sup>(2)</sup>
				<i>(square meters)</i>	
Bataysk	107,438	Southern	2008	11,200 <sup>(3)</sup>	4,200
Kamyshin	127,891	Southern	2008	11,200 <sup>(3)</sup>	4,200
Kingisepp	50,295	North-Western	2007	6,264 <sup>(3)</sup>	2,790
Krasnodar	646,175	Southern	2007	11,283	4,200
Solnechnogorsk	58,374	Central	2007	11,655 <sup>(3)</sup>	4,600

(1) Population data are from All-Russia Population Census-2002 the results of which are available on the website of Rosstat.

(2) Excludes selling space designated as to be leased to third parties.

(3) Total selling space is subject to change until final state approval for the operation of the hypermarket is obtained.

Our hypermarkets had, on average as of March 15, 2008, a total space of 10,320 square meters, a selling space of 3,998 square meters (excluding areas designated as selling space to be leased to third parties) and a selling space designated as to be leased to third parties of 2,339 square meters. The assortment of products at our hypermarkets is much larger than at our convenience stores, reaching up to 13,200 SKUs at the largest stores. Our hypermarkets typically operate 12 hours a day, seven days a week.

Our hypermarkets are focused on generating profit mainly from high turnover. Due to our efficient logistics system, considerable purchasing power and the efficiencies of scale a hypermarket format offers, we expect to be able to offer customers significantly lower prices (in comparison with our own convenience stores and, we believe, with prices available to customers at most other competing formats) on the majority of food and non-food products we sell at our hypermarkets.

To increase customers' convenience and satisfaction, we rent space for small stores (including, for instance, pharmacies and small jewelry shops) in most of our hypermarkets. We also encourage the installation of ATMs in each of our hypermarkets. In addition, we currently expect that we will be able to offer our customers an option to make payments with credit cards at our hypermarkets in the second half of 2008.

We believe that the Russian food retail market has now reached the appropriate stage of development for hypermarkets to operate profitably in many Russian regions. We also believe that our hypermarkets are an attractive shopping option particularly for low-income and middle-income customers, offering them the advantages of low prices, a broad assortment of both food and non-food products and a number of additional in-store services. We intend to rapidly develop our hypermarket operations, particularly in cities and towns that have a population between 50,000 and 500,000 inhabitants and in which there are currently no other hypermarkets. We had 29 new hypermarkets under construction as of March 15, 2008.

### **Premises**

#### *Store Layouts*

In order to decrease in-store costs while maintaining quality levels in our convenience stores and hypermarkets, we employ uniform standards for store layout (with modifications for leased premises, if necessary), equipment, quality of construction and the composition of construction and finishing materials. We believe that employing uniform standards helps to limit construction and refurbishment costs as well as improve customer convenience.

With respect to convenience stores, we initially relied on leasing premises for our stores to achieve rapid growth in the number of stores. Our decisions on opening new stores were largely affected by availability

of suitable retail space and we were willing to consider most stores with a selling space of over 180 square meters so long as they met our other specifications. Following the change in our convenience store expansion strategy to place greater emphasis on the ownership of such stores, we have begun to open larger stores. Going forward, the preferred size for all of our newly acquired or newly constructed stores is approximately 600 to 700 square meters of total space and approximately 400 to 500 square meters of selling space, compared to the average total space of 443 square meters and average selling space of 292 square meters for all of our existing convenience stores as of December 31, 2007.

With respect to hypermarkets, we plan to open new stores in one of three principal formats: small (with a total space of 3,200-4,700 square meters and a selling space, including selling space designated as to be leased to third parties, of 2,000-2,500 square meters), medium (with a total space of 11,100-11,700 square meters and a selling space, including selling space designated as to be leased to third parties, of 6,000-8,100 square meters) and large (with a total space of up to 21,000 square meters and a selling space, including selling space designated as to be leased to third parties, of up to 12,500 square meters).

#### *Ownership Strategy*

We own or lease the convenience stores that we operate. The following table sets out the number of convenience stores owned and leased by us as of December 31 of the years 2001 through 2007.

	<u>As of December 31,</u>						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Owned stores	3	11	33	78	174	456	520
Leased stores	<u>150</u>	<u>357</u>	<u>577</u>	<u>936</u>	<u>1,326</u>	<u>1,437</u>	<u>1,674</u>
<b>Total number of stores</b>	<b><u>153</u></b>	<b><u>368</u></b>	<b><u>610</u></b>	<b><u>1,014</u></b>	<b><u>1,500</u></b>	<b><u>1,893</u></b>	<b><u>2,194</u></b>

As of March 15, 2008, we had 1,653 convenience stores that we leased and 566 convenience stores that we owned. We owned one out of five hypermarkets which we operated and were in the process of receiving title to the remaining four hypermarkets.

Historically, we primarily leased convenience stores to be able to expand rapidly with limited capital expenditure. Starting in 2004, we made a change in our convenience store expansion strategy and began acquiring real estate on which a number of our most successful stores operated, as well as land plots in suitable locations for new convenience stores, particularly in existing markets in which we had already achieved high penetration.

The process of opening new convenience stores that we own is much more capital intensive than the opening of such stores on leased premises due to the need to either acquire the existing premises or to build a new store. Therefore, our capital expenditures have increased significantly as a result of this change in strategy. In addition, because our access to capital is not unlimited, the rate of addition of new convenience stores has decreased as a result of a shift to acquisitions and construction of new convenience stores as our preferred options for further expansion of our convenience store chain.

The shift in strategy to increased ownership of convenience stores has helped us to mitigate the impact of increases in commercial real estate rent increases, which have been quite high in Russia in recent years, on our results of operations because the proportion of our convenience stores affected by such increases in our overall convenience store portfolio declined during the 2004-2006 period. The increase of a number of convenience stores in our ownership also allowed us to mitigate the adverse impact of disruptions resulting from the inability to renew leases for premises on which our convenience stores operated on commercially acceptable terms.

A particularly large increase in the percentage of stores that we owned between December 31, 2005 and December 31, 2006 (from 174 owned stores, or 11.6% of all convenience stores, as of December 31, 2005 to 456 owned stores, or 24.1% of all convenience stores, as of December 31, 2006) was due to our use of a large proportion of the proceeds from our initial public offering completed in May 2006 on purchases of existing or new convenience stores and construction of new convenience stores in 2006. In 2007, a large portion of our capital expenditures was spent on the acquisition of land for, and construction of, hypermarkets. Purchases of existing or new convenience stores and construction of new convenience stores in 2007 were financed principally from net cash generated by operating activities. While the number of convenience stores we owned increased to 520 as of December 31, 2007 in comparison with 456 as of December 31, 2006, the ratio of owned convenience stores to the total number of our convenience stores as of December 31, 2007 (23.7%) slightly decreased in comparison with the same ratio as of

December 31, 2006 (24.1%). We expect that net cash generated by operating activities will continue to be the principal source of financing for purchases or construction of our convenience stores in the near future, that the absolute number of convenience stores that we own will continue to increase and that the proportion of convenience stores that we own will remain at approximately the same level as in 2006 and 2007 in the near and medium term.

As of March 15, 2008, we owned two of five land plots under our existing hypermarkets, 13 of 29 land plots on which new hypermarkets were being constructed (with one additional land plot, to which our title is currently being registered with state authorities and three more land plots expected to be transferred into our ownership in the course of 2008) and 15 of 16 remaining land plots that we designated for hypermarket development, on which construction had not yet started as of that date. All of the leased land plots were transferred to us by local municipalities on the basis of long-term contracts ranging from 5 to 49 years.

#### *Leased Premises*

As at December 31, 2007, we leased 76.3% of our convenience stores, as well as some of our warehouse and office space. Most of the premises leased by us for our convenience stores are leased for a short term of less than one year, with the provision for an automatic extension. Our preferred policy is to enter into leases for a three-year term or longer. Rent is predominantly set in Roubles. Historically, most of our leases have been renewed when they expire or have been automatically extended.

In some locations, in order to optimize the use of our leased premises, we sublease surplus space at our convenience stores to third parties, such as pharmacies or to banks for the installation of ATMs. These subleases are typically signed one month prior to the opening of a new store and normally have a term of less than one year.

#### *Closure of Stores*

To improve the efficiency of our operations, we close stores from time to time if they fail to meet key performance indicators within certain time periods. In 2005, 2006 and 2007, we closed 64, 120 and 108 convenience stores, respectively. In 2006 and 2007, 43 and 39 stores, respectively, were closed due to poor performance and the remaining stores were closed for relocations to better premises (45 in 2006 and 31 in 2007), due to disagreements with landlords concerning rent (31 in 2006 and 38 in 2007) or due to other matters relating to particular properties (one store in 2006).

#### ***New Store Development***

##### *New Store Roll-Out Strategy*

We seek to develop new stores in those areas in which we already have a significant presence within an approximately 400 kilometer distance from one of our distribution centers, as we believe this is the preferred maximum distance for the efficient distribution of goods. Within this distance, we have flexibility in deciding where to place our convenience stores, since such stores generally only need a population of approximately 7,000 to support them. The choice of location for hypermarkets is more limited, as we believe that they can be operated profitably only in cities and towns with a population of over 50,000 people. We have opened or intend to open a large majority of our hypermarkets in those places in which there is currently no competition from other hypermarkets.

When we expand into new regions, the first convenience stores usually have to rely on third party distributors and transportation service providers for product deliveries as it is unprofitable to operate our own distribution center to service just a few stores. We open distribution centers in new geographic areas of operations when the number of our convenience stores in the relevant area increases to such extent that the benefits from operating our own distribution center exceed the costs of opening and operating such a center.

##### *Identification of Premises for New Stores*

We have a procedure to evaluate proposals for, and to implement the roll-out of, new convenience stores and hypermarkets. The process involves the coordination of several of our departments.

A key criterion in the approval process for a new convenience store or a new hypermarket is the payback period, calculated on the basis of the expected sales potential (being a function of the population density



in the target areas surrounding our convenience stores or hypermarkets), the level of passing pedestrian and automobile traffic, the estimated level of disposable income of the population in the area and the proximity and performance of local competitors. We employ automated statistical valuation methods to forecast customer traffic and sales and we believe that our internal forecasts have become more accurate over time.

In addition, the leasing terms or real estate purchase price in the case of leased or acquired convenience stores, respectively, or the land purchase price in the case of hypermarkets or newly built convenience stores, are also taken into consideration. For a proposed convenience store to be approved, if the premises are to be leased, the convenience store should have a payback period of not more than two to three years and if the premises are to be owned by us, the payback period should be not more than six to seven years. In the case of hypermarkets, the payback period should also be not more than six to seven years.

We have found that new convenience stores achieve the level of customer traffic almost equal to their average customer traffic by the end of the first six months of operations. We expect our hypermarkets to achieve the projected average level of customer traffic within seven to 12 months, depending on location and type of population center in which the hypermarket is located.

For each new convenience store, a detailed feasibility study is carried out before approval is received from a regional director and a branch director. We also conduct a detailed legal and technical due diligence prior to the signing of a lease agreement or a sale and purchase agreement for the property. Once the property is secured, a detailed opening budget and schedule is prepared and approved by the head office and a committee on store openings (led by the head of development and the chief financial officer).

#### *Construction of New Stores*

We outsource “greenfield” construction projects involving convenience stores and hypermarket construction to third party contractors. Construction of new convenience stores generally takes four to seven months to complete. The costs of “greenfield” convenience store construction projects, including land acquisition costs and necessary equipment purchases were, on average, US\$830 per square meter in 2007, but varied significantly depending on the region. In 2005, 2006 and 2007, we constructed 15, 26 and 36 new convenience stores, respectively. Where opportunities exist, we seek to acquire land plots suitable for future development. See “—Premises—Ownership Strategy.”

Based on our experience with the hypermarkets we have already opened prior to March 15, 2008, it has taken us up to 18 months (and slightly more than 15 months on average) from the date of the decision to buy or lease a land plot for a hypermarket to the opening date for such hypermarket. The costs of hypermarket construction projects, including land acquisition costs and necessary equipment purchases, ranged between US\$1,861 and US\$2,098 per square meter of total space for the three hypermarkets we opened in 2007.

#### *Refurbishment and Fitting Out Process for Leased or Acquired Convenience Stores*

Once the leasehold or ownership rights to a convenience store are acquired, we begin the process of refurbishing and fitting out such leased or acquired store.

Our uniform standards enable us to decrease the time required for refurbishment and fitting out process and to lower the costs of refurbishment and equipment as a result of purchasing equipment, materials and services in bulk. These uniform standards are subject to periodic review, which involves identifying and analyzing the potential benefits of using new equipment, technologies and materials.

The average time of convenience store refurbishment (from acquisition of title or leasehold rights to store opening date) in 2007 was approximately 2.5 months. The average costs of a new convenience store refurbishment (excluding cost of inventory) for the stores opened in the fourth quarter of 2007 were approximately US\$165,000 (including equipment costs of approximately US\$96,000).

#### ***Product Range***

The assortment of products available at our convenience stores and hypermarkets is regularly revised, with slow-moving items being removed and new items being added, to address the needs of our customers.

We purchase most of the products sold in our stores from producers based in the Russian Federation. Imported products only constituted approximately 16.5% of cost of goods sold in 2007.

#### *Product Mix Management*

The product mix for each of our stores is centrally controlled to ensure that the inventories across our convenience stores or hypermarkets are relatively standardized. An assortment committee monitors and

adjusts the product mix using a series of product mix matrices, depending on the size of the stores and other factors such as the level of disposable income of consumers in the local market. Each matrix specifies the percentages that products or categories of products are to represent in the product mix.

With respect to hypermarkets, in which the assortment of products is much larger (reaching up to 13,200 SKUs at the largest stores) with the much higher proportion of non-food and long shelf-life food products, the complexity of product mix management is significantly greater and requires us to have a separate product mix matrix for each of our hypermarkets.

#### *Food Products*

Among food products, fresh food products with a short shelf life, such as dairy and bakery products, fruits and vegetables, play a particularly important role in terms of maintaining or increasing customer traffic at our convenience stores and provide an effective way to compete with large format retailers that have similar pricing policies (for example, the hypermarket operators Auchan or Lenta) and target the same customer base. This is because customers generally cannot purchase fresh products for the whole week in a hypermarket due to the limited storage period of such products and, because of their less convenient locations, most customers generally cannot shop at hypermarkets two or three times a week as they can at our convenience stores. Consequently, we believe that by increasing the selection of fresh products at our convenience stores, we can maintain or even increase customer traffic, as well as increase average ticket size because fresh products are generally more expensive than non-perishable substitutes.

#### *Non-Food Products*

As of December 31, 2007, non-food products constituted approximately 20% of the total number of SKUs sold at our convenience stores and 25% of the total number of SKUs sold at our hypermarkets. Non-food products sold at our convenience stores principally include home and personal care goods. The range of non-food products sold at our hypermarkets is much more extensive and includes, among others, cosmetics, clothes, shoes, household chemicals, haberdashery, stationery, toys, pet supplies, sports and fitness products, appliances and household goods.

#### *Private Label Products*

Our private label products are produced by selected suppliers and sold under a “for Magnit stores” logo. Private label products are generally priced between 10% and 15% lower at our stores than similar brand-name products. However, due to the absence of marketing and advertising expenses on such products by the producers and large volume of orders, we can purchase them at a significantly lower price and, accordingly, our margins on such products are, on average, higher than on other products in a similar product category. The following table shows growth in our private label products as of, or in the years ended, December 31, 2005, 2006 and 2007.

	<b>As of, or for the year ended, December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Product</b>			
Ratio of private label SKUs to average number of SKUs at our convenience stores, end of period	14.4%	15.4%	20.0%
Proportion of revenue from private label products in total retail revenue	8.2%	10.9%	12.1%
<b>Number of private label products SKUs, end of period</b>	<b>508</b>	<b>551</b>	<b>700</b>

As of December 31, 2007, 85% of our private label products were food products, including bakery products, canned food, confectionery and snack foods. We typically introduce new private label products into the least expensive price segment of the fastest selling essential product categories, provided that quality can be guaranteed for the product’s shelf life. In the 2005-2007 period, we expanded our private label products to various non-food products such as fast-selling household cleaning products, hygiene products and laundry detergents.

As of March 15, 2008, our range of private label products consisted of 85% of food SKUs and 15% of non-food SKUs. We intend to further expand our private label products range and therefore the proportion of revenue from such products to our total retail revenue, which we believe will continue to have a positive effect on our gross margins.

### *Quality Control*

We have established strict quality control procedures at all of our distribution centers and stores and regularly monitor the quality of merchandise. All products sold in our stores have Russian state quality certificates. Food products are subject to random physical inspection by us on arrival at distribution centers (for conformity of texture, smell, flavor and taste).

### *Pricing*

The price of products is determined every two weeks by our head office using a centralized matrix-based pricing system. Specialized computer software sets prices at our convenience stores according to our target gross margin for the convenience store business as a whole (based in part on the monitoring of competitors' prices for a selection of 200 indicative SKUs) as set by senior management, and takes into account the following factors:

- the product's overall necessity;
- the target audience for the product;
- the anticipated purchasing frequency of the product; and
- the percentage the product holds in a consumer staples basket.

The pricing models are revised every four months and the mark-up on each SKU is reviewed every month to ensure that the overall margin targets set in the budget are fulfilled.

Prices are adjusted further on the basis of geographic area (urban or rural) and seasonality, as well as information on competitive pressures that may be affecting a particular store or a group of stores received from store managers. While store managers are not permitted to adjust prices by themselves, pricing adjustments can be made centrally within several hours.

While we use similar pricing models for products sold in our convenience stores and hypermarkets, the range of products sold in our hypermarkets on which we price in relatively low margins is much more extensive. As a result, our prices on approximately 1,000 basic SKUs that are sold in both our convenience stores and our hypermarkets are almost always lower at our hypermarkets. In addition, our marketing actions in hypermarkets, which often include active marketing with the participation of our employees and separate stands for products highlighted in such actions, cover a much larger range of SKUs than in marketing actions in our convenience stores creating a greater potential for savings for the customers.

### *Marketing and Advertising*

Our marketing strategy aims to increase customer loyalty, to attract new customers within our current markets and to facilitate entry into new markets as new convenience stores and hypermarkets are established.

Our approach to increasing customer loyalty is based on monitoring the changes in consumers' preferences occurring as a result of developments in Russian food retail market, increases in consumer spending by households and a greater appreciation of the value of time by Russian consumers. In response to these changes, we adjust product mix as well as display of products on shelves, check-out process and the availability and range of special offers.

Our marketing activities include distribution of catalogs in our stores and delivering such catalogs to mailboxes of people living close to our stores; selected distribution of leaflets about price promotions and products initiatives within the areas around our stores; special offerings of various private label products and product-tastings in the newly opened stores and joint marketing activities with suppliers (such as lotteries, distribution of free samples and product-tastings). We also regularly offer price reductions of 20% to 25% on 200 to 300 of the most popular SKUs as part of our marketing campaign under the banner "Magnit—always low prices" to promote the image of Magnit stores as the lowest cost convenience stores. We also frequently offer price reductions of up to 50% on 50 to 100 SKUs at newly opened convenience stores.

To understand the needs of our customers better, we conduct customer surveys in the regions in which we operate to identify local customers' preferences. We also conduct regular research on the composition of regional consumer baskets. We outsource most of our marketing activities to a number of third party marketing agencies.

## **Customers**

Our convenience stores target low and middle-income consumers living within 500 meters from each of our convenience stores. Our hypermarkets target customers who live in the areas near our hypermarkets as well as consumers with cars who live further away but may travel to one of our hypermarkets to do their shopping.

We divide our customers into the following categories:

- **Families.** This category consists of people who are 30 to 60 years old usually with families and constitutes approximately 64% of the Russian population according to Rosstat. Typically, they value time highly and demand a convenient location and an extensive choice of products. However, they tend to be cautious in their spending patterns and demand high-quality products.
- **Pensioners.** This category consists of people who are over 60 years old and constitutes approximately 12% of the Russian population according to Rosstat. Typically, they are conservative consumers with low incomes who are primarily focused on obtaining low prices and, to a lesser extent, having a convenient location and an extensive choice of products.
- **Young generation.** This category consists of people who are up to 30 years old and constitutes approximately 24% of the Russian population according to Rosstat. Typically, this category is less sensitive to changes in prices and is more concerned with having an extensive choice of products and a convenient location allowing these customers to do shopping in a time-efficient manner.

We monitor customer preferences and spending patterns regularly (including in other retail formats in local markets). We adjust the assortment of products at our convenience stores and hypermarkets to meet the requirements of the three categories of customers described above (see “—*Product Range—Product Mix Management*”). For example, to attract more family customers to our convenience stores, we have increased the volume of fresh dairy and semi-finished products in our SKU selection and have organized shelf-space so that customers can do their shopping quickly.

Further, to meet the needs of pensioners, we have extended our range of competitively-priced private label products.

We estimate that the frequency of visits to our convenience stores by a single customer is approximately three times a week in rural areas and between 4.2 and 4.5 times a week in urban areas. To encourage more frequent visits, we sell fresh food products (such as dairy and bakery products, fruits and vegetables) and ready-made meals produced in-store and sublet surplus retail space to complementary service providers, such as pharmacies.

A large number of customers at our hypermarkets consists of people who visit the hypermarket regularly and treat it essentially as a convenience store offering a larger selection of products. They often make the majority of their food shopping at our hypermarkets. The other large group of customers at our hypermarkets includes the customers living further away from our hypermarkets and visiting the nearest hypermarket on a less frequent basis. Such customers typically spend considerably more per each visit and purchase a larger amount of non-food and long-shelf life food products. Since this second group of customers constitutes a large percentage of people shopping at our hypermarkets, we estimate that the frequency of visits to our hypermarkets by an average customer is approximately 1.5 times a week.

The lower frequency of visits of some hypermarket customers is compensated by a much larger average ticket, which, in 2007, exceeded the average ticket at our convenience stores by more than 300%.

## **Suppliers**

We believe that as a result of our position as the largest food retailer in Russia by the number of stores that we operate and one of the largest by volume of sales and because of our focused product range, we are a key customer to many of our suppliers, which significantly increases our purchasing power and allows us to negotiate favorable supply terms. The other factors supporting our purchasing power are a diversified supplier base, a centralized purchasing system, an efficient in-house logistics system and, with respect to products purchased from regional producers or suppliers, our market position in many regions where we are the largest food retailer by both the number of stores and the volume of sales.

### *Diversified Supplier Base*

With approximately 3,000 to 3,500 regular suppliers as of December 31, 2007, our supplier base is diversified. Of these regular suppliers, the largest were LLC Procter and Gamble Distribution Company, which provided us with non-food products that constituted approximately 2.7% of our cost of goods sold in 2007, and LLC TD-Holding, which provided us with food products that constituted approximately 2.6% of our cost of goods sold in 2007. The 20 largest suppliers accounted for approximately 22.0% of our cost of goods sold in the same year. The selection of suppliers is made by the assortment committee, which meets each week and consists of senior management and representatives of the relevant purchasing team. Regional directors are responsible for the supply of products sourced locally.

In 2007, fifty largest producers and distributors accounted for approximately 30% of our cost of goods sold, with the remainder being attributable to smaller national producers and distributors and producers and distributors in the individual regions in which stores are located. We aim to reduce the share of locally supplied products to 15% of cost of goods sold, which should primarily consist of bakery and fresh dairy products.

### *Purchasing System*

We generally seek to conclude one-year agreements with an option to extend the contract by a further year (and with no limitation on the number of such extensions) with most of our suppliers. Our purchasing contracts give us the right to terminate such contracts at any time without incurring any penalties.

We enter into various arrangements for purchasing private label products. Private label goods are goods supplied by third parties and then sold under brand names controlled by us. The use of private label products provides us with an opportunity to influence the production process and negotiate favorable purchase terms.

### *Terms and Conditions of Contracts with Key Suppliers*

Being one of the largest customers for many of our suppliers enables our centralized purchasing department to negotiate discounts, rebates, promotional bonuses and other favorable purchasing terms from our suppliers. For example, in 2007, the average credit payment term (calculated as the average trade account payable divided by the costs of goods sold and multiplied by 360) from our suppliers was 45 days, up from 36 days in 2005. In some cases, for national suppliers, the payment term was up to 60 days. Because our inventory management days in 2007 were 35 days, our suppliers effectively financed the costs of keeping goods in inventory.

In general, we use a standardized supply contract, typically with a term of one year and an option to extend the contract by a further year (and with no limitation on the number of such extensions). The contract provides for the renegotiation of price over the term of the contract, rather than a single fixed price. Each month, we identify price changes by our suppliers and, if the relevant category manager considers that the supplier's price is no longer competitive, in many cases we may unilaterally terminate the supply contract and switch to an alternative supplier without penalties.

We collect bonuses from some suppliers for meeting certain sales targets, for store promotions or for loyalty. We also receive compensation from some suppliers for external logistics costs, such as the costs related to the delivery of products from the supplier to our distribution centers. In some cases, we also collect compensation for internal logistics costs, such as the costs related to the delivery from our distribution centers to our stores. We typically do not charge suppliers an entry fee, as we believe that this provides us with greater flexibility to manage our suppliers and product mix.

### **Logistics**

We believe that one of our key competitive advantages is our effective logistics system, which enables us to operate across a wide geographic area, to minimize our transportation costs and to manage our inventory efficiently (see "*—Competitive Strengths—Efficient Logistics System*"). Our logistics system consists of three key elements, as set out below.

### ***Distribution***

As of March 15, 2008, we operated eight modern automated distribution centers with a total warehousing space of 137,561 square meters. Our distribution centers can accommodate large deliveries and have a scalable configuration. The location of each distribution center has been chosen so that the stores it

services are generally within 400 kilometers. Distribution centers operate 24 hours a day and, as of March 15, 2008, employed total staff of 6,068.

The following table shows the size and other information concerning our distribution centers as of or for the year ended December 31, 2007.

<b>Location</b>	<b>Total square meters</b>	<b>Share in total distribution center turnover</b>	<b>Number of stores serviced</b>	<b>Number of employees</b>
Bataysk (Southern Federal District)	16,576	13.5%	267	842
Kropotkin (Southern Federal District)	30,048	29.1%	492	1,713
Engels (Volga Federal District)	19,495	16.9%	322	806
Tolyatti (Volga Federal District)	7,560	5.9%	254	329
Tver (Central Federal District)	10,714 <sup>(1)</sup>	9.7%	170	429
Orel (Central Federal District)	12,472	11.8%	325	646
Ivanovo (Central Federal District)	24,120	9.4%	274	634
Chelyabinsk (Urals Federal District)	16,576 <sup>(2)</sup>	3.7%	93	453
<b>Total</b>	<b>137,561</b>	<b>100%</b>	<b>2,197</b>	<b>5,852</b>

(1) Total space is subject to change until the final state approval for the operation of the premises of 3,478.3 square meters forming part of the distribution center in Tver is obtained.

(2) Total space is subject to change until final state approval for the operation of the distribution center in Chelyabinsk is obtained.

We plan to open two new distribution centers in Velikiy Novgorod (in the North-Western Federal District) and Slavyansk-on-Kuban (in the Southern Federal District) in 2008.

By the end of 2007, we had installed low-temperature storage modules at all of our distribution centers, with the exception of the Tolyatti distribution center, to expand the capacity to store fresh, frozen and chilled food.

We adhere to strict quality control procedures at all of our distribution centers and stores and regularly monitor the quality of merchandise.

### ***Inventory Management***

We have developed an automated stock replenishment system that enables us to monitor, manage and forecast changes in customer demand and inventory levels efficiently. The system automatically submits orders to distribution centers by comparing information on inventory balances in stores and forecasts of demand on a three-week moving average basis.

### ***Transportation***

As of December 31, 2007 and as of March 15, 2008, we operated a fleet of 802 and 899 delivery trucks, respectively. We leased approximately 61% of these vehicles under finance leases from LLC “Hansa Leasing” and LLC “Raiffeisen-Leasing”. We believe that we have been able to achieve a significantly higher load factor for our fleet compared with third party transport providers due to a custom-made transport configuration providing a higher capacity in each of our trucks. For example, higher load factors are achieved by transporting frozen and chilled food together with other products in special isothermal insulated boxes. Careful selection of delivery routes also allows us to create efficiencies, such as achieving an average of 35% loads on return routes in 2007 by delivering goods from producers or wholesalers to our distribution centers.

In 2007, our logistics system helped us to distribute through our distribution centers products that we estimate accounted for approximately 71% of cost of goods sold. We believe that the capacity of the systems, equipment and technologies that we currently have in place should enable us to increase the share of products delivered to our stores through our distribution centers to 85%, which we aim to achieve in the medium term. Based on our current range of SKUs and our current operations, we believe that further increases beyond 85% would be unlikely to result in significant additional cost savings. The remaining 15% of products are primarily fresh products that need to be delivered to our stores on a daily basis. As deliveries from our distribution centers to most of our stores generally take place three times a week, attempts to further increase the share of fresh products delivered through our distribution centers may require significant increase in the number of deliveries leading to large cost increases.

We believe that our logistics system provides us with the following principal benefits:

- volume discounts and favorable credit terms due to the use of a centralized purchasing function;
- reduced purchasing costs across regions due to the use of in-house warehousing and transportation;
- reduced transportation costs due to the use of in-house transportation to optimize delivery frequency and routing; and
- reduced stock shortages in stores due to the use of an automated stock replenishment system and customized transportation.

We plan to develop our logistics systems further to support our expansion into new regions.

### **Competition**

The modern food retail market in Russia started in Moscow with the opening of the first supermarket by Seventh Continent in 1994. The discounter format was first introduced following the 1998 crisis and the hypermarkets expansion started in the Russian market in 2000. Most large Russian food retail chains operate under a multi-format model, including in their store portfolios hypermarkets, supermarkets and discounter formats. Almost all food retailers expanded their chains by acquiring selling space from traditional groceries. Development of the hypermarket segment, however, requires the construction of buildings or whole shopping malls and is frequently slowed down by particularly complex bureaucratic procedures of acquiring land plots and construction permits.

We believe that with respect to our convenience store operations our principal competitors currently include Pyaterochka, Dixy and Kopeyka chains. All of these chains have a much larger number of stores than us in Moscow and Pyaterochka and Dixy have a larger number of stores than us in St. Petersburg. But the reason why we consider these chains as our principal competitors is not because they have a larger share of the market in two largest cities in Russia, but because all of them are currently actively expanding their operations outside of Moscow and St. Petersburg, where their stores are often competing directly with our convenience stores in the same locations.

In the hypermarket segment we consider Auchan, Perekrestok, Karusel, Lenta and O'Key as our current principal competitors. Each of these chains has started and intends to continue building hypermarkets outside of Moscow and St. Petersburg and may have plans to open, or has already opened, stores in the same cities and towns where we opened or intend to open our hypermarkets.

Our principal competitors are briefly described below.

#### *Convenience Stores*

**Pyaterochka:** Pyaterochka is one of the two chains of stores owned by the X5 Retail Group. The X5 Retail Group was formed in May 2006 as a result of the merger of Pyaterochka and Perekrestok and is currently the largest food retailer in the Russian Federation in terms of revenue. The X5 Retail Group kept the separate brands—Pyaterochka (for discount stores format) and Perekrestok (for hypermarkets and supermarkets format, described below). As of December 31, 2007, according to information on its website, the X5 Retail Group owned and operated 674 Pyaterochka stores and its franchisees operated 680 Pyaterochka stores.

**Dixy:** Dixy is a discount retailer that opened its first store in Moscow in 1998. According to information on its website, as of December 31, 2007 it operated 375 discount stores under the Dixy brand name, nine compact hypermarkets under the Megamart brand name and seven supermarkets under the Minimart brand name located in three federal districts in Russia (the Central Federal District, the North-Western Federal District and the Urals Federal District).

**Kopeyka:** Kopeyka is a discounter chain that, according to information on its website as of March 15, 2008, operated a total of 438 discount stores at the beginning of 2008. These stores were located in the Central Federal District and the three regions of the Volga Federal District. In addition, according to information on Kopeyka's website, its franchisees operate 22 Kopeyka stores.

#### *Hypermarkets*

**Auchan:** Auchan is a hypermarket retailer based in France that opened its first store in Russia in 2002. According to information on its website as of March 15, 2008, it had a total of 17 hypermarkets in Russia, 10 of which were located in Moscow and the Moscow region, two in St. Petersburg and the remaining five

in other Russian regions. In the end of 2007, Auchan expanded its presence in Russia by acquiring 14 Ramstore supermarkets, nine of which are located in Moscow and the remaining five in its vicinity.

**Perekrestok:** Perekrestok is the second chain of stores owned by the X5 Retail Group. As of December 31, 2007, according to information on its website, the X5 Retail Group owned and operated 179 Perekrestok supermarkets across Central Russia and Ukraine and 15 Perekrestok hypermarkets. The X5 Retail Group has an option to acquire the Karusel hypermarkets chain in the first half of 2008. Its plans with respect to development of Perekrestok's hypermarket operations will depend on whether the option is exercised.

**Karusel:** According to information on its website, as of December 31, 2007, this chain of stores consisted of 22 hypermarkets located in St. Petersburg, Leningrad region, Moscow region, Izhevsk, Volgograd and Nizhniy Novgorod, three of which were opened in 2007. As of the same date, the total space of all of these hypermarkets was 234.9 thousand square meters.

**Lenta:** Lenta is a chain of hypermarkets that originated in St. Petersburg. According to information on its website as of March 15, 2008, Lenta operated 26 hypermarkets, 13 of which were located in St. Petersburg and eight additional hypermarkets were under construction.

**O'Key:** O'Key is a hypermarket chain, which was founded in 2002 in St. Petersburg. According to information on its website as of March 15, 2008, O'Key operated 11 hypermarkets in St. Petersburg and one hypermarket in each of Rostov-on-Don, Krasnodar and Tolyatti. O'Key opened its first supermarket in May 2006 and is currently expanding its supermarket business.

There are several other large food retail chains operating in Russia. However, the other chains often concentrate their operations in regions that are not of strategic importance to us (e.g. Victoria which concentrates mainly in Moscow, the Moscow region and St. Petersburg) or they tend to operate in a different segment of the market (e.g. Seventh Continent which operates a chain of stores targeting a higher end of the market) and are therefore not considered by us as our main competitors.

## **Information Technology**

We have developed an integrated IT system that covers all major aspects of our business, including in-store systems, logistics systems and management and other administrative systems. The system provides for the timely exchange of information between our stores, distribution centers, regional offices and head office, including detailed reports for each store at the close of business every day, as well as real-time access to information on inventory in the distribution centers and monthly profitability reports. We believe that the system enables management to make efficient pricing and inventory management decisions, facilitate our budgeting and accounting processes, standardize our operations across our chain of convenience stores and our hypermarkets and automate some transactions with suppliers.

The IT system was developed by our own team of IT specialists using custom-built and third party software to ensure that it provides a safe, uninterrupted and secure platform.

## **Intellectual Property**

Under Russian law, the right to use a trademark is acquired upon the trademark's registration with the Federal Service on Intellectual Property, Patents and Trademarks (the "**Federal IP Service**"). The "МАГНИТ" trademark ("Magnit" in Cyrillic characters) was registered with the Russian Patent Agency with priority from January 2003 (No. 257219). We hold our trademark "Magnit" (in Cyrillic letters) for several classes of the International Classification of Goods and Services, such as a range of food and other products as well as for shipping and packaging of goods. There is no unified view on the classification of retail services in the context of trademark registrations and we are not aware of any legal precedents or publicly available official clarifications of the Russian courts. Accordingly, conflicts between registrations may arise. In particular, we may be subject to claims from holders of other similar trademarks and we may not be able to prevent the use by third parties of trademarks similar to our own registered trademarks, such as the use of a similar trademark on products of inferior quality.

As of the date of the Prospectus, we had also registered a large number of trademarks in respect of our private label products, many of which expire over the period from 2011 to 2016. Some of the major private label trademarks registered by us are: "Akh, Polinka" (chocolate-covered cheesecake bars), "Bystrinka" (quick-cooking dishes), "Daffin Keyk" (confectionery), Froot Keyk" (confectionery), "Kremlevskiye Zabavy" (chocolate), "Ladi" (vegetable oil), "Loza Chernomor'ya" (wine), "Lu Shin" (quick-cooking



noodle soup), “Master Blesk” (cleaning and washing products), “Nikitina Usad’ba” (juices and fruit drinks), “Podsolnyshko” (sunflower oil), “Pyatyi Sezon” (frozen vegetables), “Russkyi Kolos” (beer), “Sekret Kulinar” (mayonnaise), “Severnaya Gavan’” (frozen fish), “Sel’skaya Yarmarka” (conserved sweet corn) and “Veroni” (pasta), all registered in Cyrillic characters, and “Green Ribbon” (conserved sweet corn and peas), “Rio D’Oro” (juices and fruit drinks) and “Tom Cat” (pet food), registered in Latin characters.

We have also registered the domain names tander.ru and magnit-info.ru.

### **Insurance**

Our insurance policies cover a relatively small portion of our equipment, as well as our pledged merchandise. We also maintain the mandatory drivers’ third party liability insurance required by Russian law, mainly for our transportation fleet. Other than where required by law, we do not purchase third party liability insurance. Our insurance policies currently in force are provided by a number of major Russian insurance companies.

### **Environmental Protection**

We produce various waste substances, which are removed by third party waste disposal contractors. We believe we comply in all material respects with the environmental standards applicable to us under Russian law and regulations. We have not been involved in any material legal proceedings that are, or have been in the 12 months preceding the date of this Prospectus, related to environmental protection issues.

### **Employees**

As of December 31, 2005, 2006 and 2007 we had 31,593, 44,295 and 58,978 employees, respectively. The following table sets out the number of employees as of December 31, 2005, 2006 and 2007 by function:

	<b>As of December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
In-store personnel	24,650	33,579	43,721
Distribution	4,220	6,494	8,174
Management and other (regional branch offices)	2,235	3,299	5,670
Management and other (head office)	488	923	1,413
<b>Total</b>	<b>31,593</b>	<b>44,295</b>	<b>58,978</b>

We believe our employees do not belong to any official trade union, labor or workers’ syndicate and there are no collective bargaining agreements between us and our employees. We have not experienced any industrial action by our employees since January 1, 2005. We consider our relationship with our employees to be satisfactory.

### **Employee Compensation**

The average annual salary of our employees in 2005, 2006 and 2007, calculated as payroll divided by the average number of employees, was US\$3,616, US\$4,083 and US\$5,003, respectively.

We offer management-level employees performance-linked and other incentives. Our performance-linked incentives consist of additional remuneration payments determined on the basis of a range of quantitative and qualitative performance measures, such as the number of stores opened, average sales per store, the number of customers per store or other relevant measures. Senior management also has access to corporate cars. At lower levels, our remuneration policy seeks to attract and retain qualified staff primarily by offering competitive remuneration packages that vary depending on the geographic area in which the relevant store operates.

### **Personnel Training**

As at March 15, 2008, we had 107 training centers, located across several regions in regional branch offices for training of new employees as well as for conducting career development programs for all levels of personnel. Middle management and senior management also receive managerial training and coaching. We believe that such training assists in reducing staff turnover and increases productivity.

We are committed to creating a strong corporate culture and encourage all employees to contribute to the improvement of the business. For example, we publish a corporate newspaper and hold regular meetings between mid-level managers to facilitate the exchange of best practices. We also solicit suggestions from employees as to how to improve our operations and present awards to employees whose ideas have been implemented.

### **Legal Proceedings**

We have not been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which we are aware) during the twelve months preceding the date of this Prospectus that may have, or have had, a significant effect on the Group's business, financial position or profitability.

### ***Litigation with the FAS***

On January 29, 2008, the Tatarstan division of the FAS found that a number of retail companies, including us, entered into cartel-like arrangements with each other and imposed particularly unfavorable conditions on the suppliers of goods and requested that we cease any such practices, i.e., exclude from our standard agreement with suppliers the clauses that, in the FAS's view, violated the anti-monopoly legislation. We appealed the FAS order in the arbitrazh court, but the decision with respect to our appeal has not yet been made. The potential losses arising from such FAS litigation cannot be accurately quantified, however we expect any potential losses to be immaterial.

## REGULATION OF FOOD RETAIL AND REAL ESTATE IN RUSSIA

*Set out below is a summary of material information concerning the regulation of our business. This description does not purport to be a complete description of all applicable laws and regulations and should not be read as such.*

### **Regulation of Food Retail**

The food retail industry in Russia is regulated by general legislation and specialized legislation that includes legislation covering quality standards, health and safety, sanitary rules and consumer protection. A number of permits and consents, including those relating to health and safety and fire protection, are required in order to open a new store. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and rules, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with the requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of our operations.

### ***State and Local Bodies Involved***

In addition to the state bodies and their subdivisions having authority over general matters, there are a number of state bodies regulating and supervising the food retail industry. The key state bodies are:

- The Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare (the “**Federal Consumer Service**”), which is the principal federal body authorized to monitor compliance with sanitary and epidemiological laws and regulations and to exercise control over consumer rights protection.
- The Ministry of Health Protection and Social Development, which, among other things, supervises the Federal Consumer Service.
- The Ministry of Civil Defense Affairs, Emergencies and Liquidation of Consequences of Natural Disasters (the “**Emergency Ministry**”), which, among other things, supervises fire inspection authorities in charge of fire safety regulations.
- Local authorities, which control compliance by the companies operating in their respective regions with various local rules, including those relating to waste management.
- State courts, which resolve civil and administrative disputes, such as invalidating consumer contracts’ provisions that violate consumers’ rights, as well as imposing criminal sanctions for criminal offences in the food retail industry, such as manufacturing and selling of goods not in compliance with the appropriate standards.

### ***Applicable Legislation***

The key pieces of Russian legislation regulating the food retail market are set out below.

- Federal Law No. 2300-1 “On Protection of Consumers’ Rights” dated February 7, 1992, as amended (the “**Law on Protection**”), establishes a general legal framework for regulation of the relationship between retailers, manufacturers and service providers, on one hand, and customers, on the other hand, in the course of the sale of goods, performance of works or rendering of services. It establishes the rights of customers to purchase goods of proper quality and to receive information on goods and their manufacturers. The Law on Protection provides for liability for retailers, manufacturers and service providers if they violate the consumers’ rights provided under this law. The Law on Protection also invalidates any term in a consumer contract purporting to limit the rights under this law. Violation of the Law on Protection may result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.
- Federal Law No. 29-FZ “On Quality and Safety of Food Products” dated January 2, 2000, as amended (the “**Law on Quality and Safety**”), establishes a general framework for ensuring the quality of food products and their safety for the human health. It sets out general requirements for the packaging, storage, transportation and sale of food products, as well as the destruction of poor-quality and unsafe food products. Violation of the Law on Quality and Safety may result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.

- Federal Law No. 52-FZ “On Sanitary and Epidemiological Welfare of the Population” dated March 30, 1999, as amended (the “**Law on Sanitary and Epidemiological Welfare**”), requires food products to meet certain sanitary standards. Food products that do not conform to the established sanitary standards and represent a danger to customers must be withdrawn immediately from production and sale. The Law on Sanitary and Epidemiological Welfare also establishes the framework for supervision by the authorized state bodies over compliance by legal entities with sanitary and epidemiological regulations. Violation of the Law on Sanitary and Epidemiological Welfare may result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.
- Federal Law No. 184-FZ “On Technical Regulation” dated December 27, 2002, as amended (the “**Law on Technical Regulation**”), establishes the legal framework for enactment on the federal level of state standards related to use, storage, transportation, sale and utilization of goods and services and compliance with such standards, including certification procedures. Violation of the Law on Technical Regulation may result in civil and administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.
- Federal Law No. 171-FZ “On State Regulation of Production of, and Operations with, Ethanol, Alcohol and Ethanol Containing Products” dated November 22, 1995, as amended (the “**Law on Alcoholic Products**”), establishes a general legal framework and requirements for the production of, and operations with (including storage and sale), ethanol, alcohol and ethanol-containing products in Russia. The Law on Alcoholic Products creates the requirement to obtain licenses for activities in connection with production of, and operations with, ethanol, alcohol and ethanol-containing products, including a license for the retail sale of alcoholic beverages. Violation of the Law on Alcoholic Products may result in administrative sanctions for non-complying companies and/or their managers and criminal sanctions for non-complying managers.
- Federal Law No. 69-FZ “On Fire Safety” dated December 21, 1994, as amended (the “**Law on Fire Safety**”), establishes a general legal framework of measures to secure fire safety in Russia. The Law on Fire Safety establishes obligations of legal entities with respect to securing fire safety and provides for the general powers of state authorities to perform audits and check compliance by organizations with fire safety regulations.
- Federal Law No. 89-FZ “On Production and Consumption Wastes” dated June 24, 1998, as amended (the “**Law on Wastes**”), sets general rules for handling waste resulting from the activity of legal entities. According to the Law on Wastes, regulation of handling of consumption waste and litter falls within the competence of local authorities. Violation of the Law on Wastes may result in administrative sanctions for the managers of non-complying companies.

### ***Licensing***

Generally, trade operations in the food industry are not subject to licensing in Russia. However, applicable legislation requires licenses for the retail sale of alcoholic beverages, which are issued by regional and local authorities. We maintain licenses for the retail sale of alcoholic beverages. Currently, almost all of our stores have such licenses. In addition, Russian law also requires us to obtain licenses for the retail sale of pharmaceutical products, which are issued by the Federal Service for Supervision in the Area of Healthcare and Social Development, for those our stores which perform such operations. Currently, all our stores performing retail sale of pharmaceutical products maintain relevant licenses.

### **Regulation of Intellectual Property**

#### ***State Bodies Involved***

The Federal IP Service is the federal body which is authorized to register intellectual property rights, including trademarks and to register agreements for the transfer of intellectual property rights, such as licensing agreements for the use of a trademark or agreements for the transfer of the right to a trademark, as well as franchising agreements.

#### ***Applicable Legislation***

Until January 1, 2008 the main law concerning intellectual property applicable to us in connection with our trademark rights was the Law of the Russian Federation No. 3520-1 “On Trademarks, Service Marks and Appellations of Origin” dated September 23, 1992, as amended (the “**Law on Trademarks**”), that

governed all issues relating to the registration and transfer of trademarks and their use. Since January 1, 2008, intellectual property is regulated by Part 4 of the Russian Civil Code, which came into effect on the same day and replaced the Law on Trademarks. The regulatory regime for trademarks under Part 4 of the Russian Civil Code remains essentially the same as the one established by the Law on Trademarks.

### ***Regulation of Trademarks***

According to Part 4 of the Russian Civil Code, protection of rights to a trademark in Russia is subject to state registration with the Federal IP Service. Upon the registration of a trademark in the state register for trademarks, the Federal IP Service issues a certificate of registration of the trademark, which is valid for ten years from the date on which the application for registration was filed. This term may be extended, each time for another ten years, upon an application by the owner of the trademark filed with the Federal IP Service during the last year of the validity of the certificate. The certificate of registration of a trademark is issued with respect to certain types of goods or services, which means that the trademark is not protected if it is used for other types of goods or services that are not covered by the certificate of registration.

A trademark may not be registered if:

- it has no distinctive features or includes no other elements, except for those which are well-known to determine certain types of goods, or represent common symbols and terms, or state certain characteristics of goods such as their quality, quantity, value, function, date, method and site of production, etc.;
- as provided under an international treaty, to which Russia is a party, the relevant trademark is similar to any state flags, emblems, symbols, official stamps, countermarks, hallmarks and seals of guarantee or contains no other elements except for those mentioned above, or if the trademark is registered in a foreign state, which is a party to such treaty, with respect to wines or spirits produced on, or originating from, its territory;
- it is similar to and may be mixed up with an international or Russian cultural heritage object, the name of commodity's place of origin, business name, commercial designation, industrial pattern or domain name registered in the name of another entity;
- it is misleading or contradicts public policy, principles of humanity or morals;
- the relevant trademark is registered with respect to the same goods or services in the name of another entity, if the application for registration of the trademark with respect to the same goods or services has already been filed by another entity, or if another entity's trademark with respect to the same goods or services has been recognized as a well-known trademark in Russia; and
- in certain other cases provided for by Part 4 of the Russian Civil Code.

A registered owner of a trademark may assign its right to the trademark or grant a temporary right to use a trademark to another entity under an agreement. Agreements for the assignment of a trademark and licensing agreements granting a temporary right to use a trademark are subject to registration with the Federal IP Service. If such registration is not obtained, such agreements would be invalid.

### **Regulation of Real Estate**

The key pieces of Russian legislation relating to land and other real estate are set out below. This description, however, does not purport to be a complete description of all applicable laws and should not be read as such.

#### ***State Bodies Involved***

In addition to the state bodies and their subdivisions having authority over general matters such as taxation, there are a number of state bodies regulating real estate in Russia. The key state bodies are:

- The Federal Agency for Real Estate Register (the “**Real Estate Register Agency**”), which is responsible, *inter alia*, for the measuring and registering of (i) land plots and (ii) real estate under construction. In addition, the Real Estate Register Agency maintains a register of land plots.
- The Federal Agency for Construction, Housing and Utilities, which is authorized, *inter alia*, to review construction documentation.

- The Federal Registration Service, which maintains a state register of the titles to real estate and of the transactions with respect to registered real estate.

### ***Applicable Legislation***

Russian legislation regulating the ownership and leasehold rights to real estate and real estate construction includes, *inter alia*:

- Russian Civil Code;
- Russian Land Code No. 136-FZ dated October 25, 2001, as amended;
- Town Planning Code No. 190-FZ dated December 29, 2004, as amended (the “**Town Planning Code**”);
- Federal Law No. 122-FZ “On State Registration of Rights to Immovable Property and Transactions Therewith” dated July 21, 1997, as amended (the “**Law on State Registration**”);
- Federal Law No. 101-FZ “On Operations with Agricultural Land” dated July 24, 2002, as amended;
- Federal Law No. 172-FZ “On Transfer of Land Plots from One Category to Another” dated December 21, 2004, as amended; and
- certain other federal and regional laws and regulations.

### ***General Provisions***

Currently most of the land in Russia is owned by the Russian Federation, Russian regions or municipalities. The share of privately owned buildings and similar real estate is increasing due to a less restrictive regulatory regime with respect to these assets.

Russian law provides for the creation of a unified register, or cadastre, in which the details of land plots, such as their measurements and boundaries, are recorded. As a general rule, only land plots with a state cadastre number may be subject to transactions. A separate register is created for the registration of the titles to real estate and of the transactions in relation to registered real estate as described in more detail below.

All land is categorized as having a particular designated purpose, for example agricultural land, land for use by industrial enterprises, power companies and communication companies, land for military purposes, forestry land and reserved land (i.e., land which is owned by the state but which can be transferred to any of the other categories). Land must be used in accordance with its categorized purpose. Under the Russian Land Code, land plots owned by the state or the municipalities may be sold or leased to Russian and foreign persons or legal entities. However, certain land plots owned by the state may not be sold or leased to the private sector and are referred to as being “withdrawn from commerce” (for example, natural reserves and land used for military purposes are typically withdrawn from commerce). Other land plots may be restricted in that they may not be privately owned, but they may be leased to the private sector (for example, land is often reserved for a particular cultural heritage purpose if a residential building of the 19th or early 20th century is built on such a land plot).

Under Russian law, a land plot and any buildings constructed upon it may be owned by different persons, in which case the owner of building may request that the owner of the land creates a set of legal rights for the benefit of the owner of the building which enables the owner of the building to access the land.

### ***Regulation of Real Estate Construction***

#### ***Obtaining Land Plots for Construction Purposes***

Russian law generally allows natural persons and legal entities to acquire land owned by state or municipal authorities for development and construction of buildings. Russian law requires state or local authorities to grant permission for land plots to be used for construction purposes unless a land plot (i) has been withdrawn from commerce, (ii) is not permitted to be privatized under federal law or (iii) has been reserved for state or municipal needs. Any refusal of state or local authorities to grant permission for a land plot may be challenged by the applicant in the Russian courts.

Under the Town Planning Code, land plots are assigned for construction in accordance with town construction plans approved by the relevant authorities.

If a particular state and/or municipal land plot has not previously been assigned, such land plot may be either acquired or leased by an applicant. If more than one applicant wishes to acquire or lease the land plot, then the decision is taken through a public tender.

If, however, the land plot was assigned before submission of an application, then it can only be subject to lease, perpetual use and temporary gratuitous use. In this case, an application for preliminary approval of a land plot for construction specifies the land plot in question as well as the building's proposed purpose, location and size. The application may be submitted together with a feasibility study. The relevant state or municipal authority then grants a preliminary approval for the use of the land plot for construction. On the basis of applications submitted by various developers, the relevant authority makes a final decision on the land plot's approval for construction.

#### *Construction and Operation Permits*

Construction of a building on a land plot may only be carried out after obtaining a construction permit from the relevant regulatory authorities. The issuance of a construction permit generally requires state appraisal of project documentation. In order to obtain an affirmative decision, the project must comply with various state standards, environmental and sanitary and epidemiological laws, regulations and rules, as well as fire safety and other types of safety requirements.

In addition, upon completion of construction, the relevant authority issues a permit for putting the building into operation, which confirms compliance of the new building with project documentation.

#### *Regulation of Real Estate Sales and Lease*

According to the Russian Civil Code, agreements with respect to the sale or leasing of real estate must expressly set out the price of such sale or rent under the lease. This restriction limits the ability of real estate industry participants to use price determination formulas and adapt to volatile market situations.

The transfer of ownership under a real estate sale agreement is subject to state registration, whereas the sale agreement itself is not required to be registered, except for sale agreements for residential properties. With respect to lease of real estate, both lease rights and lease agreements are subject to registration, except for those lease agreements, which are for a term of less than one year.

#### *State Registration of Titles to Real Estate and of Transactions Involving Such Registered Real Estate*

All rights to real estate (including land plots and buildings) and certain transactions involving such real estate are required to be registered in the Unified State Register of Rights to Immovable Property and Transactions Therewith (the "**Register of Rights**") maintained by the Federal Registration Service. Under the Law on State Registration, registration with the Register of Rights is, *inter alia*, required for: (i) rights to, and encumbrances on, buildings, facilities, land plots and other real estate; and (ii) transactions involving registered real estate such as an establishment of a trust, a creation of a mortgage or an entry into a lease for a term of not less than one year. Real estate and transactions involving such registered real estate are registered by the Federal Registration Service in the registration district where the property is situated.

Rights to real estate can only arise upon state registration. The failure to register a transaction that requires state registration generally results in the transaction being rendered null and void.

#### *Liability of Land Plot Owners and Leaseholders*

Owners and leaseholders of land plots and buildings are required to comply with federal, regional and municipal laws and regulations. The owner of a building will usually bear all liabilities that may arise in connection with the building. Owners and leaseholders are required, for example, to use the land plot (and, if required, the building) in accordance with its designated purpose and not to cause harm to the environment. Regional and municipal laws and regulations and agreements entered into with local and municipal authorities may provide for additional financial and other obligations such as financing of local transportation and social infrastructure.

#### *Land and Real Property Taxation*

##### *Property Tax*

Obligations to pay property tax apply to all Russian entities and to non-Russian entities that carry out business in Russia through a permanent establishment and/or own real estate in Russia. Land and natural

resources are specifically excluded. The taxable items are movable and immovable property (including the property which is delivered for temporary enjoyment or is owned by a joint venture, or placed in trust) included on the balance sheet of the taxpayer as fixed assets in accordance with RAS, except for the property held by mutual funds.

The tax rate is established by the regional authorities of the Russian Federation but may not exceed 2.2% of the average annual net book value of the relevant property calculated under RAS. Currently, the regional authorities of the most developed Russian regions have set the tax rate at the highest possible rate. This tax is payable on a quarterly basis.

#### *Land Tax*

Obligations to pay land tax apply to individuals and entities who have ownership title, the right of permanent use or a life estate (which can be disposed of by the life tenant in its will) in land.

The land tax rates are determined by the municipal authorities within the following limits specified in the Tax Code: (i) 0.3% of the register value for the agricultural and housing land; and (ii) 1.5% of the register value for all other land, which includes land for use in the retail industry. Legal entities pay this tax on a quarterly basis.

### **Regulation of Employment and Labor**

Employment and labor matters in Russia are regulated by the Labor Code dated December 30, 2001, as amended (the “**Labor Code**”), and certain other federal and regional laws and regulations.

#### *Employment Contracts*

As a general rule, employment contracts for an indefinite term are entered into with all employees. Russian labor legislation expressly limits the possibility of entering into term employment contracts (for example, this applies to the contracts with senior managers).

An employer may terminate an employment contract only on the basis of the specific grounds listed in the Labor Code:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position’s requirements due to incompetence or health problems;
- systematic failure of the employee to fulfill his or her duties;
- any single gross violation by the employee of his or her duties;
- provision by the employee of false documents or misleading information prior to entry into the employment contract; and
- other grounds stated in the Labor Code or other federal laws.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation (including a severance payment) and, depending on the circumstances, salary payments for a certain period of time.

The Labor Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or disabled children under the age of 18 or other persons caring for a child under the age of 14 or disabled children under the age of 18 without a mother.

Any termination by an employer of an employment contract that is inconsistent with the Labor Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally-dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees’ rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for claimed moral damage (which amount should be approved by the court).



### ***Work Time***

The Labor Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be paid for at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. The retirement age in the Russian Federation is 60 years for men and 55 years for women.

### ***Salaries***

The minimum monthly wage in Russia, as established by the applicable federal law, is RUB 2,300 as of March 31, 2008. Although the law requires that the minimum wage be at or above the minimum subsistence level, the current minimum wage is generally considered to be less than the minimum subsistence level.

### ***Strikes***

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay salaries to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

## MANAGEMENT AND CORPORATE GOVERNANCE

### Board of Directors

The Board of Directors of the Company is responsible for general management matters, with the exception of those matters that are designated by the Joint Stock Companies Law and our charter as being the exclusive responsibility of the general shareholders' meeting. For more detailed discussion of the authority of the Board of Directors, see "*Description of Share Capital and Applicable Russian Legislation—Board of Directors.*"

Our Board of Directors currently consists of seven directors. One director is an independent director under the criteria set out in the Joint Stock Companies Law, which differ in certain respects from the criteria for independent directors that are set out in the UK Combined Code on Corporate Governance.

The following table sets out the name, year of birth and position on the Board of Directors for each member of the Board of Directors:

<b>Name</b>	<b>Year of Birth</b>	<b>Position<sup>(1)</sup></b>
Andrey Arutyunyan	1969	Chairman of the Board of Directors
Alexander Chalikov	1978	Director
Dmitriy Chenikov	1965	Director
Sergey Galitskiy	1967	Director
Vladimir Gordeychuk	1961	Director
Alexander Prisyazhnyuk	1972	Director
Mattias Westman	1966	Independent director

(1) Principal senior management positions of the members of the Board of Directors are listed below.

All of our directors were elected or re-elected on June 28, 2007 by the annual general shareholders' meeting. The terms of appointment for all directors expire on the date of the next annual general shareholders' meeting. The business address of each of our directors is 15/2 Solnechnaya Street, 350072 Krasnodar, Russian Federation.

#### ***Andrey Arutyunyan—Chairman of the Board of Directors, First Deputy to General Director (Chief Executive Officer), Head of Development of Tander***

Mr. Arutyunyan joined us in late 2002 when he became the chairman of Tander's board of directors. An economics graduate from the Kuban State University, Mr. Arutyunyan began his career in the early 1990s as an economist, working, among others, for the Southern Black Sea Commercial Bank. In 1997, he moved into the hospitality sector, becoming a financial director of a hotel company and a director of various other companies operating in the sector. Mr. Arutyunyan has served as the head of development of Tander since 2004 and as the chairman of the board of directors of LLC Magnit-Nizhny Novgorod since 2006. He has been the chairman of our Board of Directors since 2004 and the first deputy to our general director (chief executive officer) since 2003.

#### ***Alexander Chalikov—Director***

Mr. Chalikov worked with us as the head of the legal department of Tander from 2004 until 2007. From 2006 until 2007 he also served as a member of the board of directors of LLC Tandem. Prior to this, he worked in various legal roles for a Russian agricultural company, with a particular focus on securities and property law. Mr. Chalikov graduated from the Kuban State Agricultural University.

#### ***Dmitriy Chenikov—Director, Head of Commodity Goods Purchasing of Tander***

Mr. Chenikov joined us in 1996 as a regional manager of Tander and, from 1997 until 2000, worked as the head of the purchasing department of Tander. From 2001 until 2007, he served as the convenience stores development manager of Tander. From 2007 until January 2008, he acted as Tander's regional director. Mr. Chenikov has been a member of our Board of Directors since 2006, a member of Tandem's board of directors since 2007 and has served as our head of commodity goods purchasing since 2008. Mr. Chenikov graduated from the Krasnodar Polytechnic Institute and holds a candidate of technical sciences degree.

#### ***Sergey Galitskiy—Director, General Director (Chief Executive Officer)***

Mr. Galitskiy is our founder and principal shareholder. An economics graduate from the Kuban State University, he spent his early career in the banking sector but quickly moved to establish his own business.

Through his initial experience as a wholesaler in the Krasnodar region, Mr. Galitskiy identified an opportunity to create a retail chain in Russia based on a modern retail format, initially with a focus on areas of the country outside of its largest cities. From 1996 until 2006 he acted as Tander’s general director (chief executive officer) and from 2002 until 2006 as a member of Tander’s board of directors. Since 2004, Mr. Galitskiy has been a member of our Board of Directors and since 2006 he has served as our general director (chief executive officer).

***Vladimir Gordeychuk—Director, Second Deputy to General Director (Chief Executive Officer), General Director (Chief Executive Officer) of Tander***

Mr. Gordeychuk has been with us since 1996. From 2002, he was a member of Tander’s board of directors and from 2003 until 2006 served as our general director (chief executive officer). Since 2004, Mr. Gordeychuk has served as a member of our Board of Directors and since 2006 he has been the second deputy to our general director (chief executive officer), the general director (chief executive officer) of Tander, the general director (chief executive officer) of LLC Magnit-Nizhniy Novgorod and the chairman of the board of directors of LLC Tandem. He is a graduate of the Novorossiysk Higher Marine Engineering College and, prior to joining us, he worked in various roles in the shipping industry.

***Alexander Prisyazhnyuk—Director, Chief Financial Officer***

Mr. Prisyazhnyuk began his career with us in 1997 as the deputy head of sales and, later, the head of the Stavropol branch. In 1999, he moved to work in various finance roles and, in 2000, he was appointed Tander’s chief financial officer. Since 2003, Mr. Prisyazhnyuk has been our chief financial officer and, since 2005, the general director (chief executive officer) of LLC Magnit Finance. Since 2004, Mr. Prisyazhnyuk has also been a member of our Board of Directors and, since 2006, a member of the board of directors of LLC Magnit-Nizhniy Novgorod. Mr. Prisyazhnyuk is a graduate of the Kuban State University.

***Mattias Westman—Independent Director***

Mr. Westman has been our independent director since 2006. Mr. Westman is the founding partner and the chief executive officer of Prosperity Capital Management (UK) Ltd. Prior to founding Prosperity Capital Management (UK) Ltd., in 1997, Mr. Westman served as a Director of the Russian division of an investment bank Alfred Berg FK (now part of ABN Amro Equities) from 1994 until 1996. From 1992 until 1994, he worked as an institutional salesman with Hagstromer & Qviberg and, in 1991, Mr. Westman served with the Russian desk of the Swedish Ministry of Foreign Affairs.

**Senior Management**

The following table sets out the names, year of birth and position of each member of our senior management:

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>
Andrey Arutyunyan	1969	Head of development of Tander
Sergey Belgesov	1970	Regional director of Tander
Valeriy Butenko	1965	Head of internal audit and analysis of Tander
Dmitriy Chenikov	1965	Head of commodity goods purchasing of Tander
Alexander Ermolenko	1960	Head of logistics of Tander
Sergey Galitskiy	1967	General director (chief executive officer)
Vladimir Gordeychuk	1961	General director (chief executive officer) of Tander
Alexander Kazakov	1959	Head of sales of Tander
Vladimir Meshcheryakov	1971	Regional director of Tander
Nikolay Panuli	1964	Head of private label development of Tander
Alexander Prisyazhnyuk	1972	Chief financial officer of the Company and Tander
Eduard Smetanin	1969	Head of hypermarket sales of Tander
Aleksey Zakhmatov	1971	Regional director of Tander

The business address of each of our senior managers is 15/2 Solnechnaya Street, 350072 Krasnodar, Russian Federation.

***Andrey Arutyunyan—Head of Development of Tander***

See “—Board of Directors” for a brief biography of Mr. Arutyunyan.

***Sergey Belgesov—Regional Director of Tander***

Mr. Belgesov joined us in 2003. From 2003 until 2007, he served as Tander's head of development for the Central region. Since 2007, Mr. Belgesov has served as a regional director of Tander. Prior to joining us, he worked at various positions in CJSC Rusbel (CJSC L'Oreal), including, among others, the position of a regional director in the department for high demand products. He graduated from the Leningrad Higher Artillery Command Academy in 1991.

***Valeriy Butenko—Head of Internal Audit and Analysis of Tander***

Mr. Butenko joined us in 1997 as the head of Tander's internal audit and analysis and, since 2004, has served as the chairman of Tander's internal audit commission. Mr. Butenko is a graduate of the Novorossiysk Higher Marine Engineering College.

***Dmitriy Chenikov—Head of Commodity Goods Purchasing of Tander***

See “—Board of Directors” for a brief biography of Mr. Chenikov.

***Alexander Ermolenko—Head of Logistics of Tander***

Mr. Ermolenko joined us in 2000 as the head of the placement department of the Novorossiysk branch and held other management positions at Tander between 2001 and 2003. Since 2003, Mr. Ermolenko has served as Tander's head of logistics. He is a graduate of the Novorossiysk Higher Marine Engineering College.

***Sergey Galitskiy—General Director (Chief Executive Officer)***

See “—Board of Directors” for a brief biography of Mr. Galitskiy.

***Vladimir Gordeychuk—General Director (Chief Executive Officer) of Tander***

See “—Board of Directors” for a brief biography of Mr. Gordeychuk.

***Alexander Kazakov—Head of Sales of Tander***

Mr. Kazakov joined us in 1997 and, from 1997 until 2006, held various positions with us, including the head of the Volgograd branch, the head for the Central region and the head for the Volga region. Since 2006, Mr. Kazakov has served as Tander's head of convenience store sales. He is a graduate of the Khmel'nitsk Higher Artillery Command Academy.

***Vladimir Meshcheryakov—Regional Director of Tander***

Mr. Meshcheryakov joined us in 2002 and served as Tander's director of development for the Northern region. Since 2007, he has worked as Tander's regional director. Mr. Meshcheryakov graduated from the Moscow Aviation Institute in 1994.

***Nikolay Panuli—Head of Private Label Development of Tander***

Mr. Panuli joined us in 1996 as a deputy head of the Novorossiysk branch and worked as Tander's commercial director from 1999 until 2007. From 2002 until 2006, Mr. Panuli was a member of Tander's board of directors. He has worked as Tander's head of private label development since 2007. Mr. Panuli is a graduate of the Novorossiysk Higher Marine Engineering College.

***Alexander Prisyazhnyuk—Chief Financial Officer of Tander***

See “—Board of Directors” for a brief biography of Mr. Prisyazhnyuk.

***Eduard Smetanin—Head of Hypermarket Sales of Tander***

Mr. Smetanin joined us in 1997 and worked as the head of sales of the Rostov branch until May 1999. From June 1999 until October 1999, he served as the head of the Pyatigorsk branch and, from October 1999 until August 2002, he worked as the head of the Rostov branch. From 2002 until 2007, Mr. Smetanin was Tander's head of purchasing. Since 2007, he has worked as Tander's hypermarket sales director. Mr. Smetanin is a graduate of the Rostov State University. In July 2001, an accident occurred

during the renovation of a building leased by the Rostov-on-Don branch of Tander that caused the death of two people and caused injuries to 11 people. In connection with this accident, in 2002, Mr. Eduard Smetanin was sentenced to five years' imprisonment in a minimum security correctional facility for the violation of building safety rules and for causing death and serious injury through negligence. He was also prohibited from holding any managerial positions related to construction for two years from the date of his release. Mr Smetanin was released on parole in December 2003.

#### ***Aleksey Zakhmatov—Regional Director of Tander***

Mr. Zakhmatov joined us in 1997 and, until 2003, held various positions at the Volgograd branch, including, among others, the position of the head of the Volgograd branch. From 2003 until 2007, he served as Tander's head of operations in the Volga-Don region. Since 2007, Mr. Zakhmatov has been Tander's regional director. Mr. Zakhmatov graduated from the Volgograd State Technical University.

#### **Corporate Governance**

We are in full compliance with the corporate governance regime applicable to us in Russia. Our shares were listed on the "B" list of RTS on December 13, 2007 and on MICEX on December 21, 2007. As a result, we are required to comply with the corporate governance regime established for companies whose shares are listed on the "B" list of a Russian stock exchange. This regime permits Russian companies within one year after the date of listing to bring their corporate governance procedures into compliance with established corporate governance standards. Such corporate governance standards include, among other things, the following:

- (a) at least one independent director (in accordance with the requirements of independence as set out by Russian law) on our Board of Directors at all times;
- (b) establishment of the audit committee of the Board of Directors, which is headed by an independent director and does not include directors who are members of our sole executive body;
- (c) the provision to the shareholders of a report from the audit committee summarizing any findings from the audit of the financial statements;
- (d) adoption of an internal regulations on the use of insider information and on internal control over financial and business activities;
- (e) a provision in our internal regulations requiring our general director (chief executive officer) as well as the members of our Board of Directors to disclose information on their ownership, sale and purchase of our securities; and
- (f) a provision in our charter that shareholders must be given at least 30 days' notice of the annual general shareholders' meeting.

In order to ensure such compliance, we have adopted a number of internal regulations governing the activities of our management bodies. According to our internal regulations, the chairman of the Board of Directors should not serve as the general director (chief executive officer) and at least one member of the Board of Directors should be independent, meeting the following requirements:

- he/she should not be a manager or employee of the Company not should he/she have been a manager or employee during the previous year;
- he/she should not be a manager of another company if any manager of such company is a member of the staff and compensation committee of the Board of Directors;
- he/she should not be a spouse, parent, child, brother or sister of any manager of the Company;
- he/she should not be an affiliate of the Company except for being a member of the Board of Directors;
- he/she should not be a party to any transactions with the Company under which transactions he/she may be entitled to acquire a property with a value of 10% or more of his/her total annual income, excluding compensation for carrying out the functions associated with being a member of the Board of Directors; and
- he/she should not be a representative of the state.

In addition, the internal regulations provide for the creation of certain committees of the Board of Directors. The Board of Directors established the staff and compensation committee and the audit committee and formally delegated certain duties and responsibilities to such committees. From time to time, separate committees may be set up by the Board of Directors to consider specific issues when the need arises.

#### ***Staff and Compensation Committee***

The staff and compensation committee assists the Board of Directors in discharging its responsibilities with respect to hiring of qualified management personnel and the development of company-wide motivation schemes for the management. The staff and compensation committee is also responsible for making recommendations to the Board of Directors on our policy on management remuneration, determining the individual remuneration and benefits package of each of the directors (other than the independent director) and recommending and monitoring the remuneration of senior management below the Board of Directors level.

Currently, the staff and compensation committee consists of Andrey Artyunyan, Vladimir Gordeychuk and Dmitry Chenikov.

#### ***Audit Committee***

The audit committee assists the Board of Directors in (i) analyzing the completeness and truthfulness of our financial statements, (ii) qualification and independence of our auditor and assessment of the quality and cost of its services, and (iii) reliability and effectiveness of our internal control systems. Currently the audit committee consists of Mattias Westman (the chairman), Sergey Galitskiy and Alexander Prisyazhnyuk. Upon election of the second independent director, he is expected to replace Mr. Galitskiy in the audit committee.

#### **Remuneration**

The aggregate amount of remuneration we paid to the current members of our Board of Directors for services in all capacities provided to us during the year ended December 31, 2007 was US\$624,969. The aggregate amount of remuneration paid by us to the same directors for services in all capacities provided to us during the year ended December 31, 2006 was US\$312,406.

The aggregate amount of remuneration we paid to 13 senior managers whose names are listed in the table above for services in all capacities provided to us during the year ended December 31, 2007 was US\$948,705. The aggregate amount of remuneration paid by us to the same 13 senior managers for services in all capacities provided to us during the year ended December 31, 2006 was US\$517,638.

In 2007, no loans have been provided to, and no guarantees have been granted with respect to obligations of, the members of the Board of Directors or the senior managers whose names are listed in the table above.

Employment contracts with directors and members of senior management do not provide for special benefits upon termination of employment and they did not provide for any such benefits in 2005, 2006 and 2007.

## Interests of Directors and Senior Management

The table below sets out the interests of the directors and senior management in the Company's share capital as of April 14, 2008, unless stated otherwise, and as adjusted to reflect the completion of the Global Offering and the Share Issue and assuming the full exercise of the Over-allotment option and that all New Shares subscribed for by our existing shareholders in the exercise of their pre-emptive rights are purchased and paid for.

Names of directors and senior managers	Immediately preceding the Global Offering and the Share Issue		After the Global Offering and the Share Issue	
	Number of shares beneficially held	% of share capital	Number of shares beneficially held	% of share capital
Andrey Arutyunyan <sup>(1)</sup>	186,726	0.2593%	186,726	0.22%
Sergey Belgesov	13,200	0.0183%	13,200	0.02%
Valeriy Butenko	144,000	0.2000%	144,000	0.17%
Alexander Chalikov	—	—	—	—
Dmitriy Chenikov <sup>(2)</sup>	220,031	0.3056%	220,031	0.26%
Alexander Ermolenko	244,800	0.3400%	244,800	0.29%
Sergey Galitskiy <sup>(1), (3)</sup>	41,880,364	58.1672%	41,662,964	50.02%
Vladimir Gordeychuk	2,999,100	4.1654%	2,999,100	3.60%
Alexander Kazakov	220,000	0.3056%	220,000	0.26%
Vladimir Meshcheryakov	37,399	0.0519%	37,399	0.04%
Nikolay Panuli	271,213	0.3767%	271,213	0.33%
Alexander Prisyazhnyuk <sup>(4)</sup>	400,000	0.5556%	400,000	0.48%
Eduard Smetanin	251,982	0.35%	251,982	0.30%
Mattias Westman <sup>(5)</sup>	2,451,287 <sup>(5)</sup>	3.40%	2,451,287 <sup>(5)</sup>	2.94%
Aleksey Zakhmatov	74,999	0.1042%	74,999	0.09%

- (1) Andrey Arutyunyan and Sergey Galitskiy are brothers.
- (2) Dmitriy Chenikov's spouse holds 30,000 Ordinary Shares.
- (3) Sergey Galitskiy holds 36,720,000 Ordinary Shares directly and 5,160,364 Ordinary Shares through Lavreno Limited.
- (4) Alexander Prisyazhnyuk's spouse holds 140,000 Ordinary Shares.
- (5) Mattias Westman has disclosed to us that he shares indirect voting and investment power (the power to dispose, or to direct the disposition of) with respect to our Ordinary Shares held by Medvezhonok Holdings Limited, Prosvetaniye Holdings Limited, Rozelia Limited and Open-Ended Unit Investment Fund "Prosperity Equities Fund". As of February 12, 2008, the total number of such Ordinary Shares was 2,451,287 (3.4% of our share capital). This number may change prior to the GDR Closing Date.

Under Russian legislation, certain transactions defined as "interested party transactions" require approval by the Company's disinterested directors or shareholders. See "*Description of Share Capital and Applicable Russian Legislation—Interested Party Transactions.*"

During the period from January 1, 2005 to the date of this Prospectus, we purchased a considerable amount of food products from LLC TD-Holding. For instance, in the year ended December 31, 2007, these food products constituted approximately 2.6% of our cost of goods sold in 2007. LLC TD-Holding also packages some of our private label products and provides construction services under a joint venture arrangements with Tander. One of the Company's directors, Mr. Gordeychuk, owns approximately 10% of the share capital in LLC TD-Holding. Such transactions create a potential conflict of interest for Mr. Gordeychuk as our director and senior manager on the one hand and as the shareholder of LLC TD-Holding on the other hand. We believe, however, that the impact of this potential conflict of interest on our operations is minimal as these transactions are completed on an arm's length basis.

Save as discussed in the above paragraph, the Company is not aware of any current or potential conflicts between the private interests and duties of the Directors and senior management of the Group and the duties of those persons to the Group.

## Litigation Statement about Directors and Senior Management

Save as described below, within the period of five years preceding the date of this Prospectus none of the Directors or senior management:

- have any convictions in relation to fraudulent offences;
- have been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or

- have received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or have been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

In July 2001, an accident occurred during the renovation of a building leased by the Rostov-on-Don Branch of Tander that caused death of two people and caused injuries to 11 people. In connection with this accident, in 2002, one of our senior managers, Mr. Eduard Smetanin, was sentenced to five years' imprisonment in a minimum security correctional facility for the violation of building safety rules and for causing death and serious injury through negligence. He was also prohibited from holding any managerial positions related to construction for two years from the date of his release. Mr. Smetanin was released on parole in December 2003.

There are no family relationships between and among directors and senior management except that Mr. Andrey Arutyunyan is a brother of Mr. Sergey Galitskiy.



## PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

The table below sets out certain information regarding the ownership of our Ordinary Shares as of April 14, 2008, unless stated otherwise, and after the completion of the Global Offering and the Share Issue assuming the full exercise of the Over-allotment Option and also assuming that all New Shares subscribed for by our existing shareholders in the exercise of their pre-emptive rights are purchased and paid for.

Shareholder	Number and percentage of share capital			
	Prior to the Global Offering and the Share Issue		After the completion of the Global Offering and the Share Issue	
	number of shares	% of share capital	number of shares	% of share capital
Sergey Galitskiy <sup>(1)</sup>	36,720,000	51.00%	41,070,474	49.30%
Lavreno Limited <sup>(1)(2)</sup>	5,160,364	7.17%	592,490	0.71%
Vladimir Gordeychuk	2,999,100	4.17%	2,999,100	3.60%
Alexander Prisyazhnyuk	400,000	0.56%	400,000	0.48%
Nikolay Panuli	271,213	0.38%	271,213	0.33%
Andrey Arutyunyan	186,726	0.26%	186,726	0.22%
Valeriy Butenko	144,000	0.20%	144,000	0.17%
Eduard Smetanin	251,982	0.35%	251,982	0.30%
Alexander Ermolenko	244,800	0.34%	244,800	0.29%
Alexander Kazakov	220,000	0.31%	220,000	0.26%
Dmitriy Chenikov	220,031	0.31%	220,031	0.26%
Aleksey Zakhmatov	74,999	0.10%	74,999	0.09%
Vladimir Meshcheryakov	37,399	0.05%	37,399	0.04%
Sergey Belgesov	13,200	0.02%	13,200	0.02%
Mattias Westman <sup>(3)</sup>	2,451,287 <sup>(3)</sup>	3.40%	2,451,287 <sup>(3)</sup>	2.94%
Labini Investment Limited <sup>(4)</sup>	6,244,717	8.67%	6,416,986	7.70%
Other public shareholders <sup>(5)</sup>	16,360,182	22.72%	27,705,313	33.26%
<b>Total</b>	<b>72,000,000</b>	<b>100%</b>	<b>83,300,000</b>	<b>100%</b>

- (1) Lavreno Limited and Mr. Sergey Galitskiy filed applications to subscribe for 592,490 and 4,350,474 New Shares, respectively, placed by us through an open subscription under their statutory pre-emptive rights. In order for Mr. Sergey Galitskiy to exercise his pre-emptive right, the Selling Shareholder has agreed to provide a loan of approximately US\$184.9 million from the proceeds it receives in the Global Offering to Mr. Galitskiy, which he will use to subscribe for the respective amount of New Shares we place through an open subscription. Mr. Galitskiy has agreed to transfer such New Shares to the Selling Shareholder as a repayment of the loan.
- (2) The Ordinary Shares held by Lavreno Limited are beneficially owned by Mr. Sergey Galitskiy.
- (3) Mattias Westman has disclosed to us that he shares indirect voting and investment power (the power to dispose, or to direct the disposition of) with respect to our Ordinary Shares held by Medvezhonok Holdings Limited, Protsvetaniye Holdings Limited, Roselia Limited and Open-Ended Unit Investment Fund “Prosperity Equities Fund”. As of February 12, 2008, the total number of such Ordinary Shares was 2,451,287 (3.4% of our share capital). This number may change prior to the GDR Closing Date.
- (4) The Ordinary Shares in the Company held by Labini Investments Limited are beneficially owned by A. I. Bogachev, an investor who does not hold any managerial position with the Group and who is not known by us to be affiliated with any other shareholder or the Group.
- (5) According to the extract from our register of shareholders dated February 12, 2008, Credit Suisse Securities (Europe) Limited is the holder of 3,516,249 Ordinary Shares (4.9% of our share capital), which constitutes the largest shareholding within this category. Information on the number of shares held by other public shareholders is as of February 12, 2008.

None of our shareholders have voting rights different from any other holders of our shares.

We are not aware of any shareholder, other than Mr. Sergey Galitskiy, which, immediately after admission to the Official List and to trading on the London Stock Exchange’s Regulated Market, directly or indirectly, will own the majority of our Ordinary Shares or could exercise control over the Company. We are not aware of any arrangements that may result in a change of control. The interests of Mr. Sergey Galitskiy could conflict with those of other holders of our shares or GDRs and, other than the protections offered to minority shareholders outlined below, no additional measures have been put in place by us to prevent an abuse of the rights of minority shareholders resulting from the exercise of control over the Company by Mr. Sergey Galitskiy. See also “*Risk Factors—Risks Related to the Shares and the GDRs—We are and will be controlled by our majority shareholder and general director (chief*

*executive officer), Sergey Galitskiy, who will continue to beneficially own the majority of our issued share capital after the Global Offering and whose interests could conflict with those of other holders of the Shares and the GDRs.”*

Russian laws such as the Joint Stock Companies Law (as defined below) and corporate governance requirements applicable to companies listed on Russian stock exchanges provide certain protections to minority shareholders. For instance, there are supermajority shareholder approval requirements for certain corporate actions, a shareholder is able to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions, companies are required to obtain the approval of disinterested shareholders for certain transactions with interested parties and the shareholders owning not less than 1% of the company's stock may bring an action for damages caused by the company's managers or directors. In addition, since our shares are listed on RTS and MICEX, we are required to comply with a number of corporate governance standards, which provide additional protection to our shareholders, including minority shareholders. See “*Management and Corporate Governance—Corporate Governance.*” However, no assurance can be given that the applicable Russian laws and the corporate governance standards with which we have to comply will be able to fully protect the interests of our minority shareholders if such interests are in conflict with the interests of our controlling shareholder. See also “*Risk Factors—Risks Relating to Russia—Legislative and legal risks—Corporate governance standards in Russia are not as developed as those in Western Europe or the United States, and, as a result of the limited protection of rights of minority shareholders under Russian law, investors may be unable to pursue legal redress against us*” and “*Description of Share Capital and Applicable Russian Legislation.*”

## RELATED PARTY TRANSACTIONS

We are party to various agreements and other arrangements with our related parties, including our shareholders and their related parties.

Related party balances as of December 31, 2005, 2006 and 2007 consisted of the following:

	As of December 31,					
	2005		2006		2007	
	<u>Other related parties</u>	<u>Controlling shareholder</u>	<u>Other related parties</u>	<u>Controlling shareholder</u>	<u>Other related parties</u>	<u>Controlling shareholder</u>
	<i>(US\$ in thousands)</i>					
Deposits	—	—	10,634	—	—	—
Trade receivables	—	—	—	—	3	—
Advances paid	502	—	—	—	21	—
Other receivables	241	—	432	—	2,758	—
Trade payables	1,939	—	1,206	—	4	—
Other payables	—	—	178	—	853	—
Loans given	—	—	27	—	12	—
Loans obtained	—	—	—	471	—	—

Our transactions with related parties for the years ended December 31, 2005, 2006 and 2007 consisted of the following:

	For the year ended December 31,					
	2005		2006		2007	
	<u>Other related parties</u>	<u>Controlling shareholder</u>	<u>Other related parties</u>	<u>Controlling shareholder</u>	<u>Other related parties</u>	<u>Controlling shareholder</u>
	<i>(US\$ in thousands)</i>					
Purchases of merchandise	6	—	90	—	—	—
Purchases of property, plant and equipment	1,492	—	25,475	—	36,787	—
Rent received	158	—	255	—	256	—
Loans obtained	61	1	—	438	—	—
Sales of merchandise	7,024	—	7,994	—	4,084	—
Other sales	—	—	—	—	2,692	—
Rent paid	716	—	648	—	557	—
Interest on deposit	—	—	1,035	—	216	—
Loans given	—	—	27	—	—	—

Transactions with related parties are performed on terms that would not necessarily be available to third parties. For example, some of our loans to our related parties, which matured in April-December 2007 or which will mature in August-December 2011, are interest free and unsecured.

Most of our related party transactions in 2006 and 2007 were with LLC Universal KTK. This company is our related party because one of our mid-level managers serves as one of its directors. Our transactions with LLC Universal KTK principally involved purchases of property, plant and equipment. In addition, we sold merchandise to LLC Universal KTK, made other sales to it, paid rent to it and received rent from it. The aggregate amount of all transactions with LLC Universal KTK accounted for approximately 78.9% and 95.2% of all of our related party transactions in 2006 and 2007, respectively. Transactions with LLC Universal KTK also accounted for approximately 6.5% of our related party transactions in 2005.

In 2006, we made two short-term deposits in the aggregate amount of US\$10.6 million at LLC Commercial Bank “Systema” and received US\$1.0 million in interest on these deposits. These transactions were entered into on an arm’s length basis. The term of the deposits ended in 2006. LLC Commercial Bank “Systema” is our related party because Mr. Bogachev, who is a senior manager at LLC Commercial Bank “Systema”, also controls Labini Investment Limited, one of our shareholders. See “*Principal Shareholders and Selling Shareholder*”.

In 2005, the largest number of our related party transactions was accounted for by transactions with LLC Magnit MOS 009 (approximately 47.8% of all related party transactions in that year), a related party that operated a convenience store in Moscow region. Most of these transactions were our sales of merchandise to LLC Magnit MOS 009. In 2006, total sales to LLC Magnit MOS 009 decreased as it stopped operating the convenience store in Moscow region and leased it to us, for which it received rent from us.

In 2006, we entered into a US\$1,000 million credit line agreement with Gazprombank and into two credit line agreements with ALFA-BANK for the aggregate amount of US\$380 million, each secured by a suretyship from Mr. Galitskiy, who is our controlling shareholder and general director (chief executive officer). The term of the credit line agreement with Gazprombank expired in 2007 and the related suretyship has been terminated. The credit line agreements with ALFA-BANK mature in 2008 with the related suretyships expiring in 2009.

During the period from January 1, 2005 to the date of this Prospectus, we purchased a considerable amount of food products from LLC TD-Holding. For instance, in the year ended December 31, 2007, these food products constituted approximately 2.6% of our cost of goods sold in 2007. LLC TD-Holding also packages some of our private label products and provides construction services under a joint venture arrangements with Tander. One of the Company's directors, Mr. Gordeychuk, owns approximately 10% of the share capital in LLC TD-Holding. Transactions with LLC TD-Holding are not included in the two tables above or in note 29 ("*Transactions with Related Parties*") in our Consolidated Financial Statements.

## DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LEGISLATION

*We describe below our registered Ordinary Shares, the material provisions of our charter in effect on the date of this Prospectus and applicable Russian legislation. This description of the applicable Russian legislation, however, does not purport to be a complete description of all applicable laws and should not be read as such. Prospective investors may obtain a copy of our charter upon request. See “General Information—Documents for Inspection.”*

*GDR holders will be able to exercise their rights with respect to the Shares underlying GDRs only in accordance with the provisions of the Deposit Agreement, the terms and conditions of the GDRs and the relevant requirements of Russian law. See “Terms and Conditions of the GDRs.”*

### **Our Purpose**

Under Article 3 of our charter, we may conduct wholesale operations with respect to beverages, food and non-food products and to carry out other activities, including retail operations, that are not prohibited by Russian legislation.

### **Description of Share Capital**

#### ***General***

We were founded as a limited liability company “Tander” on July 3, 1995, which was reorganized into a closed joint stock company in June 1996 and underwent a subsequent corporate restructuring in November 2005, which resulted in CJSC Magnit becoming the holding company of the Group. In January 2006, CJSC Magnit was reorganized into an open joint stock company. Our share capital is divided into shares each with an equal nominal value and the amount of the aggregate nominal value of all such shares constitutes our share capital. Our shares may be sold by their holders to any third parties without triggering any rights of first refusal or requiring any approvals on the part of other shareholders or the Company.

Pursuant to the Joint Stock Companies Law, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Our share capital currently consists of 72,000,000 Ordinary Shares, each with a nominal value of RUB0.01, all of which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 128,850,000 Ordinary Shares, each with a nominal value of RUB0.01.

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our share capital. Such shares are referred to as treasury shares for purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Currently, we do not have any treasury shares.

No preferred shares are authorized or outstanding. Preferred shares may only be issued if amendments are made to our charter pursuant to a resolution of the general shareholders’ meeting. The Joint Stock Companies Law provides for a right to issue preferred shares subject to the nominal value of all outstanding preferred shares not exceeding 25% of the share capital.

Our existing Ordinary Shares are listed on MICEX and RTS, in each case under the symbol “**MGNT.**”

#### ***History of Share Issuances***

Since its incorporation and prior to the issuance of Ordinary Shares in the Share Issue, the Company completed four issuances of Ordinary Shares and one issuance of preferred shares, with the latter being subsequently repurchased and cancelled. In March 2006, the Company carried out the latest of these four issuances of Ordinary Shares, in which the share capital of the Company was increased from RUB 649,467.54 to RUB 720,000 through the issuance of 7,053,246 Ordinary Shares, with the report on the results of the share issue registered with the FSFM on June 16, 2006. All shares of the last issue were ultimately placed under closed subscription to one of the Company’s shareholders and were paid for in cash.

The following table sets out the changes in the Company's share capital that have occurred from the date of the Company's incorporation up to the date of this Prospectus, excluding the issuance of Ordinary Shares in the Share Issue.

<u>Year of issue or repurchase and cancellation</u>	<u>Type of shares</u>	<u>Number of shares issued/ (repurchased and cancelled)</u>	<u>Nominal value of each share issued</u>	<u>Total number of ordinary shares after the issue</u>	<u>Total number of preferred shares after the issue or repurchase and cancellation</u>	<u>Total share capital after the issue or repurchase and cancellation</u>
			(RUB)			(RUB)
2004	Ordinary shares	850,000	0.01	850,000	—	8,500
	Preferred shares	150,000	0.01	—	150,000	10,000
2005	Ordinary shares	2,758,153	0.01	3,608,153	—	37,581.53
	Preferred shares	(150,000) <sup>(1)</sup>	—	—	0	36,081.53 <sup>(1)</sup>
	Ordinary shares	61,338,601	0.01	64,946,754	—	649,467.54
2006	Ordinary shares	7,053,246	0.01	72,000,000	—	720,000

(1) On November 8, 2005 the extraordinary general shareholders' meeting decided to reduce the Company's share capital through repurchase and cancellation of 150,000 preferred shares. These preferred shares were repurchased by the Company and cancelled on December 8, 2005. After the reduction, the Company's share capital amounted to RUB 36,081.53 and consisted of 3,608,153 Ordinary Shares with a nominal value of RUB 0.01.

### **Rights of Shareholders**

Holders of our Ordinary Shares have the right to vote at all general shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all our Ordinary Shares have the same nominal value and grant identical rights to their holders. Each fully paid Ordinary Share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without the consent of other shareholders;
- receive dividends in accordance with the Joint Stock Companies Law and our charter if we announce payment of such dividends;
- acquire our shares by exercising pre-emptive rights on a *pro rata* basis in relation to their existing holdings of our shares as provided for by the Joint Stock Companies Law and our charter;
- participate in general shareholders' meetings and vote on all matters within the shareholders' competence;
- participate in the election and dismissal of members of the Board of Directors and the internal audit commission;
- transfer voting rights to a representative on the basis of a power of attorney;
- if holding, alone or with other shareholders, 2% or more of the voting shares, within 30 days of the end of our fiscal year, make proposals for inclusion of the items to the agenda of an annual general shareholders' meeting and nominate the general director (chief executive officer) and candidates to the Board of Directors and the internal audit commission;
- if holding, alone or with other shareholders, 10% or more of the voting shares, demand that the Board of Directors convene an extraordinary general shareholders' meeting or an unscheduled audit by the internal audit commission;
- demand repurchase by us of all or some of the shares owned by it, as long as such shareholder voted against or did not participate in the voting on the decision approving the following:
  - (a) any reorganization;
  - (b) entering into a major transaction, involving assets in excess of 50% of the balance sheet value of our assets subject to provisions of the Joint Stock Companies Law; and

- (c) amendment of our charter or approval of a restated version of our charter that limits the shareholder's rights;
- upon our liquidation, receive a proportionate amount of our property after our obligations are paid off;
- have access to certain of our documents, receive copies for a reasonable fee and, if holding alone or with other shareholders 25% or more of the voting shares, have free access to accounting documents;
- if holding, alone or with other shareholders, 1% or more of the voting shares:
  - (a) access the list of persons entitled to participate in the general shareholders' meeting;
  - (b) sue in court members of the Board of Directors or the general director (chief executive officer) for damages incurred by us as a result of their faulty actions or omissions to act; and
  - (c) obtain information on our shareholders' register from our registrar as provided by Russian legislation; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of general shareholders' meetings approved in accordance with our competence.

Holders of our Ordinary Shares must also fulfill certain obligations such as compliance with our charter, decisions made by the general shareholders' meeting, and certain other requirements in accordance with our charter and Russian legislation.

### **Pre-emptive Rights**

The Joint Stock Companies Law and our charter provide existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such closed subscription. This pre-emptive right does not apply to the closed subscription for shares by the existing shareholders, provided that each such shareholder may acquire a whole number of shares or securities convertible into shares being placed, in proportion to its existing shareholding. We must provide shareholders with written notice at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. If the price of the offered shares or securities convertible into shares is determined after expiration of the pre-emptive right, we must provide shareholders with written notice at least 20 days prior to such offering, during which time shareholders may exercise their pre-emptive rights.

### **Dividends**

The Joint Stock Companies Law and our charter set forth the procedure for determining the dividends that we distribute to our shareholders. According to our charter, we may declare dividends based on our three-month, six-month, nine-month and/or annual results. Dividends are recommended to the general shareholders' meeting by a majority vote of the Board of Directors and are approved by the majority vote of the general shareholders' meeting. A decision on three-month, six-month and nine-month dividends must be made at the general shareholders' meeting within three months of the end of the respective quarter, and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividends approved at the general shareholders' meeting may not be more than the amount recommended by the Board of Directors. The amount of fixed dividends payable on preferred shares must be determined upon the issuance of the respective preferred shares and reflected in our charter. Dividend payable on shares is distributed to our shareholders as at the record date for the general shareholders' meeting approving the dividends. According to our charter, the dividend should be paid in cash. No dividend is paid on treasury shares.

The paid dividends are subject to tax. See "*Taxation—Russian Tax Considerations—Taxation of Dividends.*"

The Joint Stock Companies Law allows dividends to be declared as long as the following conditions have been met:

- the share capital of the company has been paid in full;

- the value of the company's net assets on the date of adoption of decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company (if any);
- the company has repurchased all shares from shareholders having the right to demand repurchase;
- the company is not, and would not become, insolvent as a result of the proposed dividend payment; and
- certain other requirements of Russian legislation.

According to our charter, dividends on Ordinary Shares may be paid out of our net profits calculated under RAS. Dividends payable on preferred shares may be also paid out of our special funds.

In addition, a Russian company is prohibited from paying dividends (even if they have been declared) if:

- the company is insolvent on the date of payment or would become insolvent as a result of the proposed dividend payment;
- the value of the company's net assets, calculated under RAS, on the date of payment, is less (or would become less as a result of the proposed dividend payment) than the sum of the company's share capital, the company's reserve fund and the difference between the liquidation value and the nominal value of the issued and outstanding preferred shares of the company; and
- otherwise prohibited by the Russian legislation.

We are required to pay dividends within the time period, which is indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution.

#### **Distributions to Shareholders on Liquidation**

Under Russian legislation, liquidation of a company results in the company ceasing to exist without rights and obligations being transferred to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- by a three-quarters majority vote at a general shareholders' meeting; or
- by a court order.

Following a decision on our liquidation, the right to manage our affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by the general shareholders' meeting and, in an involuntary liquidation, is appointed by the court that may vest the duty to liquidate us in our shareholders. Our creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation of a company:

- *first priority* — individuals owed compensation for personal injury or death or moral damages;
- *second priority* — employees' claims and copyright claims;
- *third priority* — federal and local governmental authorities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- *fourth priority* — other creditors in accordance with Russian legislation.

Claims of creditors with respect to obligations secured by a pledge over a company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors of the first and second orders of priority arose before the respective pledges have been entered into. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- payments to holders of ordinary and preferred shares.



## **Liability of Shareholders**

The Civil Code and the Joint Stock Companies Law generally provide that shareholders of a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investments. This may not be the case, however, when one entity is capable of determining decisions made by another entity. The entity capable of determining such decisions is called an “effective parent.” The entity whose decisions are capable of being so determined is called an “effective subsidiary.” The effective parent bears joint and several liability for transactions entered into by the effective subsidiary in carrying out these decisions if:

- the effective parent gives binding instructions to the effective subsidiary; and
- the right of the effective parent to give binding instructions is provided for in the charter of the effective subsidiary or in a contract between such entities.

Thus, a shareholder of an effective parent is not liable itself for the debts of the effective parent’s effective subsidiary unless that shareholder is itself an effective parent of the effective parent.

Therefore, shareholders will not be personally liable for our debts or those of our effective subsidiaries unless the shareholders control our business.

In addition, the effective parent is secondarily liable for the effective subsidiary’s debts if the effective subsidiary becomes insolvent or bankrupt resulting from the fault of the effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency or bankruptcy of this effective subsidiary. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, shareholders of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary’s losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or failed to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in the effective subsidiary’s loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary’s losses from the effective parent if the effective parent, through its willful misconduct or negligence, caused the effective subsidiary to take any action that resulted in a loss.

## **Alteration of Share Capital**

### ***Share Capital Increase***

We may increase our share capital by:

- issuing new shares; or
- increasing the nominal value of previously issued shares.

A decision to increase the share capital by increasing the nominal value of previously issued shares requires a majority vote of a general shareholders’ meeting. A decision on issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of Ordinary Shares or securities convertible into Ordinary Shares constituting more than 25% of the number of previously issued Ordinary Shares, requires a three-quarters majority vote of a general shareholders’ meeting. A decision on the issuance of shares by way of distribution between all shareholders or an issuance by open subscription of Ordinary Shares or securities convertible into Ordinary Shares constituting 25% or less of the number of previously issued Ordinary Shares, requires a unanimous vote by the Board of Directors. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter requires a charter amendment, approved by a three-quarters majority vote of a general shareholders’ meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at the price determined by the Board of Directors based on their market value. The Board of Directors may provide for a discount for existing shareholders exercising their pre-emptive right to purchase shares for a price that shall not be less than 90% of the price set for third parties. Fees paid to an intermediary participating in an offering of shares cannot exceed 10% of the share placement price. The price may not be set at less than the nominal value of the shares. The Board of Directors shall value any in-kind contributions for new shares based on the appraisal report of an independent appraiser.

Federal Law No. 39-FZ “On the Securities Market” dated April 22, 1996, as amended (the “**Law on the Securities Market**”), and the FSFM regulations set out detailed procedures for the registration and issuance of shares of a Russian joint stock company, including:

- adoption of a decision on an increase of share capital through a placement of additional shares;
- adoption of a decision on a share issuance;
- registration of a share issuance with the FSFM;
- placement of the shares;
- registration of the placement report or filing of the placement notification with the FSFM; and
- public disclosure of information at certain stages of the issuance.

### ***Share Capital Decrease; Share Buy-Backs***

The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which currently is RUB100,000 for a Russian open joint stock company. Our charter requires that any decision to reduce our share capital through the repurchase and cancellation of shares should be made by a majority vote of the general shareholders’ meeting. The Joint Stock Companies Law provides that a decision to reduce share capital through a reduction in the nominal value of the shares should be made by a 75% majority of votes at the general shareholder’s meeting and only upon recommendation of the Board of Directors. A decision to reduce our share capital through the reduction of the nominal value of the shares may provide for payments to all the shareholders and/or transfer of securities of other companies owned by us.

The Joint Stock Companies Law allows us to reduce our share capital only if, at the time of such reduction:

- our share capital is paid up in full;
- we are not and would not become, as a result of the payment and/or the transfer of securities to the shareholders as described above, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the payment and/or the transfer of securities to the shareholders) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described below;
- we have fully paid all declared dividends; and
- we comply with other requirements of Russian legislation.

Additionally, within 30 days of a decision to reduce our share capital, we must issue a written notice to our creditors and publish information on this decision. Our creditors would then have the right to demand, within 30 days of such notice or publication, early termination or discharge of relevant obligations by us, as well as compensation for damages.

The shares repurchased pursuant to a decision of a company’s general shareholders’ meeting to decrease the overall number of shares are cancelled at their redemption.

The Joint Stock Companies Law and our charter allow our shareholders to authorize the repurchase of up to 10% of our shares in exchange for cash. The shares repurchased pursuant to a decision of the Board of Directors must be resold at the market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease our share capital.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our share capital is paid up in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of our share capital, the reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares; and

- we have repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- any reorganization;
- entering into a major transaction, which requires approval by the general shareholders' meeting, subject to the provisions of the Joint Stock Companies Law; or
- amendment of our charter or approval of a restated version of our charter in a manner, which restricts shareholder's rights.

We will repurchase the shares at the price stated by the Board of Directors, which shall not be less than the market value determined by an independent appraiser. We may spend up to 10% of our net assets calculated under RAS for a share redemption demanded by the shareholders. If the value of shares with respect to which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a *pro rata* basis.

### **Registration and Transfer of Shares**

All our shares are Ordinary Shares in registered form. Russian legislation requires that a joint stock company must provide for the maintenance of a register of its shareholders. A register of shareholders may be maintained by the company itself or by a specialized registrar. The Joint Stock Companies Law requires that a registrar has to maintain a register of shareholders for joint stock companies which have more than 50 shareholders. Since 2006, OJSC United Registration Company located at 15A Kalanchevskaya Street, Moscow, Russia, has maintained our shareholder register. Ownership of our registered Ordinary Shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from such register certifying the number of shares that such shareholder holds. Any purchase, sale or other transfer of shares is accomplished through registration of the transfer in the register of shareholders, or in a special register maintained by a depositary if shares are held by a depositary. In the latter case, the depositary must appear as a nominal holder of shares in our register of shareholders. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to register the transfer of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, is not allowed, provided that the transfer documents comply with Russian law requirements, and such refusals may be challenged in court. No register of our shares is kept by us or on our behalf in the United Kingdom.

### **Reserve Fund**

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. The reserve fund must be utilized only for the abovementioned purposes. Our charter provides for the reserve fund of 15% of our share capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 15% of our share capital.

### **Disclosure of Information**

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders, management bodies, members of the Board of Directors, branches and representative offices, our shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity and disclosing the same information on our website on the same basis as required by applicable securities regulations;
- filing with the FSFM and publishing in a newswire and on our Internet page, as well as, in certain cases, publishing in a periodical publication, any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholding as well as resolutions of the general shareholders' meeting and Board of Directors;

- disclosing our charter and internal regulations;
- disclosing information on any of the following documents we have received:
  - (a) a voluntary offer (including any competing offer);
  - (b) a mandatory offer (including any competing offer);
  - (c) a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of our Ordinary Shares;
  - (d) a request that minority shareholders sell their shares to the person that has acquired more than 95% of our Ordinary Shares;
- disclosing information on various stages of the share issuance, registration and placement through publication of certain data, as required by applicable securities regulations;
- publishing our annual report and annual financial statements prepared in accordance with RAS;
- filing with the FSFM on a quarterly basis a list of our affiliates and disclosing the same on our website, on the same timing basis; and
- disclosing other information as required by applicable securities legislation.

### **General Shareholders' Meeting**

#### ***Procedure***

The powers of the general shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. The scope of authority of the general shareholders' meeting is limited to the powers contemplated by the Joint Stock Companies Law and our charter. Among issues that the shareholders have the power to decide are:

- amendments and additions to our charter;
- our reorganization;
- our liquidation, appointment of the liquidation commission and approval of preliminary and final liquidation balances;
- election and removal of members of the Board of Directors;
- determination of the number, nominal value and class/type of authorized shares and the rights granted by such shares;
- increase of our share capital by means of:
  - (a) increasing of the nominal value of the shares;
  - (b) issuing shares via closed subscription;
  - (c) issuing shares constituting more than 25% of the number of issued and outstanding Ordinary Shares via open subscription;
  - (d) issuing shares constituting 25% or less of the number of issued and outstanding Ordinary Shares via open subscription, if the Board of Directors did not reach a unanimous vote; and
  - (e) placement of our Ordinary Shares by way of distribution between shareholders, if the Board of Directors did not reach a unanimous vote;
- reduction of our share capital either by reduction of the nominal value of the shares or by buy-back of our outstanding shares for the purposes of such reduction or by cancellation of our treasury shares;
- splitting and consolidating our shares;
- issuance of bonds or other securities convertible into Ordinary Shares when placed by either closed subscription or by open subscription if the amount of Ordinary Shares into which such securities may be converted exceeds 25% of issued and outstanding Ordinary Shares;
- appointment and removal of the members of our internal audit commission;
- approval of our external auditor;

- approval of our annual reports and financial statements;
- approval of certain interested party transactions and major transactions;
- distribution of profits, including payment of dividends;
- setting out a procedure for holding a general shareholders' meeting;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organizations;
- approval of certain internal regulations;
- payment of remuneration to the members of the Board of Directors;
- payment of remuneration to the members of our internal audit commission; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a general shareholders' meeting is generally based on the principle of one vote per Ordinary Share, with the exception of the election of the Board of Directors, which is done through cumulative voting.

Ordinarily, a majority vote of the voting shares present at a general shareholders' meeting is required for a decision of the general shareholders' meeting to be valid. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve the following:

- amendments and additions to our charter;
- our reorganization, liquidation, appointment of the liquidation commission or approval of preliminary and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of our assets;
- determination of the number, nominal value and type of authorized shares and the rights granted to holders of such shares;
- reduction of our share capital through a reduction of the nominal value of the shares;
- increase of our share capital through the issuance of shares when such shares are either placed by closed subscription or placed by open subscription if the amount of such shares exceeds 25% of issued and outstanding Ordinary Shares; and
- issuance of bonds or other securities convertible into Ordinary Shares when such bonds or other securities are either placed by closed subscription or placed by open subscription if the amount of Ordinary Shares in which such securities may be converted exceeds 25% of issued and outstanding Ordinary Shares.

The quorum requirement for a general shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another general shareholders' meeting with the same agenda may (and, in case of an annual general shareholders' meeting, must) be convened and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

Under the Joint Stock Companies Law certain shareholders' resolutions may provide that they remain valid for a specific period of time with respect to our reorganization or spin-off, an increase or decrease in share capital or a subdivision or consolidation of shares (the "**Validity Period**"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions become void and, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

An annual general shareholders' meeting must be convened by the Board of Directors between March 1 and June 30 of each year, and the agenda must include among other issues the following:

- determination of the number and election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and the income statement;

- approval of distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor;
- appointment of the members of the internal audit commission; and
- other issues according to our charter and Joint Stock Companies Law.

A shareholder or shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of an annual general shareholders' meeting and may nominate candidates for the Board of Directors, the audit commission and the general director (chief executive officer). Any agenda proposals or nominations must be provided to us no later than 30 calendar days after the end of the preceding financial year.

Extraordinary general shareholders' meetings may be convened by the Board of Directors on its own initiative, or at the request of the internal audit commission, the external auditor or a shareholder owning, individually or collectively with other shareholders, at least 10% of the issued voting shares as of the date of the request.

If election of the members of the Board of Directors is on the agenda of an extraordinary general shareholders' meeting, a shareholder or a group of shareholders owning in the aggregate at least 2% of our voting shares may introduce proposals for nomination of candidates to the Board of Directors. The number of such candidates may not exceed the number set forth in the charter.

A general shareholders' meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by a general shareholders' meeting through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues on the agenda, provided that if the ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to us without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages collecting shareholders' opinions on issues on the agenda by means of a written poll.

The following issues cannot be decided by a general shareholders' meeting by absentee ballot:

- election of the members of the Board of Directors;
- election of the internal audit commission;
- approval of the external auditor; and
- approval of our annual report, the annual financial statements, including the balance sheet, the income statement and any distribution of profits, including approval of annual dividends, if any.

### ***Notice and Participation***

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of joint attendance (meeting) or by absentee ballot, by no less than 30 days' notice. However, if it is an extraordinary general shareholders' meeting to elect the Board of Directors or to elect the board of directors of a newly established company in connection with the Company's reorganization through a merger, spin off or split, shareholders must be notified at least 70 days prior to the date of the meeting. If a general shareholders' meeting is to decide on a reorganization of the Company the shareholders must be notified of the meeting by no less than 50 days' notice. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our register of shareholders on the date established by the Board of Directors, which date may neither be earlier than the date of adoption of the resolution of the Board of Directors to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary general shareholders' meeting to elect the Board of Directors, not more than 85 days before the date of such general shareholders' meeting).

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorized representative (by proxy);

- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to a duly authorized representative.

### **Board of Directors**

Pursuant to the Joint Stock Companies Law and our charter, the Board of Directors performs general management of the Company's affairs, except for the adoption of decisions that fall within the exclusive competence of the general shareholders' meeting.

The Joint Stock Companies Law requires at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only individuals (as opposed to legal entities) are entitled to sit on the Board of Directors. Members of the Board of Directors are not required to be our shareholders. Our charter provides that the Board of Directors must consist of no less than five members, with the exact number of members to be determined by the general shareholders' meeting.

Our charter provides for the election of the entire Board of Directors at each annual general shareholders' meeting. The Board of Directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons to be elected to the Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates.

Prior to expiration of their term, the entire Board of Directors may be dismissed at any time without cause by a majority vote of shareholders participating in the general shareholders' meeting. Members of the Board of Directors may be re-elected an unlimited number of times.

The Joint Stock Companies Law generally prohibits the Board of Directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. The Board of Directors has the power to perform the general management of the Company's affairs and to decide, among other things, the following issues:

- determination of the Company's business priorities and approval of annual and quarterly budgets of the Company;
- convening annual and extraordinary general shareholders' meetings, except for certain cases specified in the Joint Stock Companies Law;
- approval of the agenda of a general shareholders' meeting;
- determination of the record date for shareholders entitled to participate in the general shareholders' meeting and other issues in connection with preparation for, and holding of, general shareholders' meetings;
- preliminary approval of annual reports;
- increase of our share capital by issuing shares constituting 25% or less of the number of issued and outstanding Ordinary Shares via open subscription;
- increase of our share capital through placement of our Ordinary Shares by way of distribution among shareholders;
- issuance of bonds or other securities convertible into Ordinary Shares if placed via open subscription and the amount of Ordinary Shares in which such securities may be converted does not exceed 25% of the number of issued and outstanding Ordinary Shares;
- placement of our bonds or other securities that are either convertible into preferred shares or non-convertible;
- approval of decisions on issuance of securities, statutory prospectuses, securities issue reports and amendments to such documents;
- determination of the value of property and of the purchase price at which our securities may be repurchased by us;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;

- appointment and removal of the general director (chief executive officer);
- recommendations on the amount of remuneration to be paid to members of the internal audit commission and on the fees payable for the services of an external auditor;
- recommendations on the amount of dividends and the payment procedure therefor;
- use of our reserve fund and other funds;
- approval of our internal documents, except for those documents the approval of which falls within the competence of the general shareholders' meeting or the general director (chief executive officer);
- establishment of branches and representative offices and their liquidation;
- approval of transactions, which do not fall within the competence of the general shareholders' meeting and involve property with the value of 5% or more of the balance sheet value of our assets, as determined under IFRS, with the exception of transactions involving the issuance of Ordinary Shares or transactions conducted in the ordinary course of business;
- approval of major and interested party transactions in cases specified by the Joint Stock Companies Law;
- appointment of our share registrar as well as approval of terms and conditions of, and termination of, the agreement with the registrar;
- establishment of committees of the Board of Directors, including the audit committee and the staff and compensation committee; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

A meeting of the Board of Directors has a quorum if not less than a half of its members elected at a general shareholders' meeting are present at the meeting. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions (such as increases of the share capital and approvals of major transactions) require the unanimous vote of all members of the Board of Directors or a majority vote of the disinterested and independent directors. In the case of a tied vote the chairman of the Board of Directors has the deciding vote.

#### **General Director (Chief Executive Officer)**

Pursuant to our charter, the general director (chief executive officer) is our sole executive body and is entitled to perform our day-to-day management. The Board of Directors appoints the general director (chief executive officer) for a term of three years but can remove him/her at any time.

The general director (chief executive officer) exercises day-to-day control over our activities and is accountable to the Board of Directors and the general shareholders' meeting. The general director (chief executive officer) is authorized, without a power of attorney, to act on our behalf. The general director (chief executive officer) may be held liable for losses caused to us. Under our charter, the powers of the general director (chief executive officer) include the following:

- providing for implementation of decisions of the general shareholders' meeting and the Board of Directors;
- entering into transactions on our behalf as provided by the Joint Stock Companies Law;
- approval of our staffing table and making mandatory orders and instructions for our employees; and
- approval of our participation in commercial organizations, except for those falling within the competence of the general shareholders' meeting.

#### **Interested Party Transactions**

The Joint Stock Companies Law contains requirements with respect to interested party transactions. An interested party transaction is a transaction with an "interested party," which is defined as a member of the board of directors of the company, a person performing functions of the sole executive body (including a managing company or a manager, which performs functions of the sole executive body of the company under a contract), a member of the collective executive body of the company or a shareholder, who owns, together with any of its affiliates, at least 20% of the company's voting shares, or any person able to issue binding instructions to the company, if any of the abovementioned persons, or any of these persons' spouses, close relatives, adoptive parents or children or affiliates:



- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- holds offices in any management body of the company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary.

The Joint Stock Companies Law requires that a transaction with an interested party be approved by a majority vote of the company's disinterested members of the board of directors or by a decision of the majority of disinterested shareholders holding voting shares, as applicable.

In a company with more than 1,000 shareholders holding voting shares, a disinterested director is entitled to vote on the approval of an interested party transaction only if he/she is an "independent director," i.e. a member of the board of directors who is not, and within one year preceding the decision was not, (i) performing the functions of the sole executive body (including being a manager) or the collective executive body of the company, or holding offices in management bodies of the managing company, (ii) a person whose spouse, close relatives, adoptive parents or children hold positions in any of the abovementioned management bodies, managing company of the company, or a manager of the company, or (iii) otherwise an affiliate of the company (except for the members of the board of directors of the company).

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares if:

- the value of such a transaction, or series of transactions, is 2% or more of the balance sheet value of the company's assets as of the last reporting date;
- the transaction, or series of transactions, involves the placement by subscription or the sale of ordinary shares in the amount exceeding 2% of the company's issued ordinary shares and ordinary shares into which the issued convertible securities may be converted;
- the transaction, or series of transactions, involves the placement by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding 2% of the company's issued ordinary shares and ordinary shares into which the issued convertible securities may be converted;
- all members of the board of directors of the company with more than 1,000 shareholders holding voting shares are interested parties, or if none of them is an independent director; or
- the number of the disinterested directors of the company with 1,000 or less shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions entered into by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual shareholders' meeting.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the sole executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares or securities convertible into shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with or into another company; or
- entering into a transaction is mandatory for the company according to Russian legislation and settlement with respect to which is effected in accordance with the fixed prices and tariffs established by authorized regulatory authorities.

An interested party transaction entered into in breach of the abovementioned rules may be invalidated by a court following an action by the company or any of its shareholders and the interested party is liable to the company for any loss incurred by such company as a result of such breach.

### **Major Transactions**

The Joint Stock Companies Law defines a “major transaction” as a transaction, or a series of transactions, involving the acquisition or disposal, or the possibility of disposal of property with the value of 25% or more of the balance sheet value of the assets of the company as determined under RAS as of the latest reporting date, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement by subscription (sale) of ordinary shares, or placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the book value of the company’s assets, as determined according to its financial statement for the latest reporting date, require unanimous approval by all members of the board of directors or, in the absence of such approval, a simple majority vote of a general shareholders’ meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters majority vote of a general shareholders’ meeting.

The approval of a major transaction is not required if a company has only one shareholder that simultaneously performs the functions of the sole executive body of the company.

Any major transaction entered into in breach of the above requirements may be invalidated by a court following an action by the company or any of its shareholders.

### **Change of Control**

#### ***Anti-takeover Protection***

Effective July 1, 2006, Russian legislation has been amended to introduce new anti-takeover provisions. The key anti-takeover provisions of the revised Joint Stock Companies Law are as follows:

A person intending to acquire more than 30% of an open joint stock company’s voting shares, including for such purpose shares already owned by such person and its affiliates, will be entitled to make a public offer to purchase the remaining shares from other shareholders (voluntary offer).

Within 35 days after acquisition by any means of more than 30%, 50% or 75% of voting shares or 35 days from the date when the acquirer knew or should have known that it, either independently or together with its affiliates, owns such number of shares, the acquirer is required to make a public offer to purchase the remaining shares from other shareholders (mandatory offer).

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, including shares owned by its affiliates, it is required to (i) notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares, and (ii) purchase their shares upon request of each minority shareholder. Instead of giving such notice, the acquirer may deliver a buy-out demand, binding on the minority shareholders, that they sell their shares.

An offer of the kind described in either of the preceding three paragraphs must be accompanied by an irrevocable bank guarantee of payment, a share price valuation report prepared by an independent appraiser and certain other documents. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for a voluntary or mandatory offer, respectively) to purchase shares in the quantity of and at the price that are greater than or equal to the quantity and the price offered in the initial voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the initial voluntary or mandatory offer so that such person can amend its offer by increasing the purchase price and/or shortening the settlement period. As soon as the voluntary or mandatory offer has been made and until expiration of a 20-day period after the expiration of the period for acceptance of the voluntary

or mandatory offer, only the company's shareholders' meeting will have the exclusive power to make decisions on a share capital increase through an additional share issuance, on approval of interested party and certain other transactions and on certain other significant matters.

Generally, such new buy-out mechanisms became effective on July 1, 2006 and are available to the persons that acquire such shares pursuant to a voluntary or a mandatory offer after such date. In addition, until August 1, 2008, such mechanisms are available to the majority shareholders that either independently or together with their affiliates owned as of July 1, 2006, more than (a) 95% of the voting shares or (b) 85% of the voting shares but acquired more than 95% of the voting shares through a voluntary offer made after such date. However, in each such case both a report of an independent appraiser and an expert opinion of a self-regulatory organization of appraisers will be required to determine the purchase price.

### **Currency Control**

The Federal Law on Currency Regulation and Currency Control, which came into effect on June 18, 2004, sets out certain restrictions on settlements between residents of Russia with respect to operations involving foreign securities, including requirements for settlement in Roubles.

Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated July 9, 1999, as amended, specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect the foreign investors' ability to do so. In its Information Letter No. 31 dated March 31, 2005, the CBR declared that, for currency control purposes, Russian companies might pay dividends in foreign currency to their shareholders who are non-Russian residents. There can be no assurance that this letter will not be reversed in the future. If Russian companies were again required to pay all dividends on ordinary shares in Roubles, current Russian legislation permits such Rouble funds to be converted into US Dollars by the depository without restriction.

The ability to convert Roubles into US Dollars is also subject to the availability of US Dollars in Russia's currency market. Although there is an existing, albeit limited, market within Russia for the conversion of Roubles into US Dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of Roubles into foreign currencies outside of Russia and no viable market in which to hedge Rouble and Rouble-denominated investments.

### **Notification of Foreign Ownership**

Foreign persons registered as individual entrepreneurs in Russia and foreign companies (regardless of whether they are registered with the Russian tax authorities) that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to foreign ownership of our shares.

### **Offering Outside the Russian Federation**

Russian law requires a permit from the FSFM to be obtained prior to effecting an offering of a Russian issuer's shares outside Russia, including offerings of equity securities through either sponsored or unsponsored depository receipt programs offering depository receipts (e.g. GDRs) representing interests in the Russian issuer's shares. On March 27, 2008 the FSFM approved the placement and circulation of up to 11,522,000 of our Ordinary Shares, representing 13.83% of our Ordinary Shares following the Global Offering and the Share Issue, in the form of GDRs, assuming full placement of the New Shares.

### **Notification of Acquisition of Significant Interest**

Pursuant to Russian securities legislation, each holder of ordinary shares must notify the company and the FSFM of any acquisition of 5% or more of the ordinary shares and any change in the number of the ordinary shares above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. Each notification should contain the name of the shareholder, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired. Such notifications must be generally given within five days after the ordinary shares have been transferred to such shareholder's securities account.

## **Antimonopoly Regulation**

Under the Federal Law No. 135-FZ “On Protection of Competition” dated July 26, 2006, which came into force on October 26, 2006 (the “**Competition Law**”), a person (or a group of affiliated persons) may be considered as having a dominant position in a particular market. A dominant position may arise in circumstances when (a) the person (or a group of affiliated persons) has a market share in a particular market in excess of 50%, unless it is specifically established that the person (or a group of affiliated persons) does not have a dominant position; or (b) the person has a market share in a particular market in excess of 35% (but less than 50%), and it is specifically established by the FAS that the person (or a group of affiliated persons) has a dominant position based on the following factors: (i) the share of the person in the relevant market is permanent or is subject to insignificant changes as compared to competitors’ shares in the same market; (ii) the likelihood of successful entry into the relevant market by a new competitor is low; or (iii) other criteria characterizing the market that the FAS deems relevant.

Under the Competition Law, a person with a dominant position in a particular market shall not engage in the following activities: (a) fix and maintain excessively high or excessively low prices; (b) withdraw goods or services from circulation resulting in price increases; (c) dictate terms unfavorable to a counterparty or irrelevant to the subject-matter of the agreement; (d) reduce or terminate production of goods or provision of services for reasons that are not economic or technological in nature, where demand for the goods or services exists, so long as the goods or services can be produced/provided at a profit; (e) refuse to enter into an agreement with particular buyers or customers for reasons that are not economic or technological in nature, where the goods or services can be produced or supplied; (f) fix differing prices (tariffs) for the same goods or services for reasons that are not economic or technological in nature; (g) create discriminatory conditions; (h) create barriers to enter or exit a particular market; (i) violate legal requirements relating to pricing; or (j) carry out any other activities that result or may result in the prevention, limitation or elimination of competition and/or the infringement of interests of other persons.

The FAS is authorized to issue binding orders on persons to eliminate abuse of a dominant position, as well as to transfer the profits obtained as a result of the illegal conduct to federal funds. The FAS also has a power to require in a court order a spin-off or split of business operations of a legal entity that holds a dominant position and repeatedly (i.e., more than two times within three years) abuses its dominant position.

In addition to the above requirements set forth with regard to a dominant position, the Competition Law provides for a merger control regime, i.e., the necessity of “approval prior to closing” by the FAS, of the following actions:

- acquisition by a person (or its group) of voting shares in a joint stock company resulting in such person (or its group) owning more than 25%, 50% and 75% of the voting shares of a joint stock company (1/3, 1/2 and 2/3 participation interest in a limited liability company); or acquisition by a person (or its group) of the core production assets and/or intangible assets of a person if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such person; or obtaining rights to determine the conditions of business activity of a person or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer (or its group) together with a target (or its group) exceeds RUB 3 billion and at the same time the total asset value of the target (or its group) exceeds RUB 150 million; or the total annual revenues of such acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RUB 6 billion and at the same time the total asset value of the target (or its group) exceeds RUB 150 million or an acquirer, and/or a target, or any person within the acquirer’s group or a target’s group are included in the Register of Persons Having a Market Share in Excess of 35% on a Particular Commodity Market (the “**FAS Register**”);
- mergers and consolidations of companies, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUB 3 billion; or total annual revenues of such companies (groups of persons to which they belong) for the preceding calendar year exceed RUB 6 billion; or if one of these companies is included into the FAS Register; and
- creation of a company, if its share capital is paid by the shares (participation interests) and/or the assets of another company and the newly created company acquires the rights with respect to such shares (participation interests) and/or assets as specified in the first bullet point above provided that the aggregate asset value of the founders (group of persons to which they belong) and the persons (groups of persons to which they belong) which shares (participation interests) and/or assets are

contributed to the share capital of the newly created company exceeds RUB3 billion; or total annual revenues of the founders (group of persons to which they belong) and the persons (groups of persons to which they belong) which shares (participation interests) and/or assets are contributed to the share capital of the newly founded company for the preceding calendar year exceed RUB6 billion; or if a company whose shares (participation interests) and/or assets are contributed to the share capital of the newly founded company is included in the FAS Register.

The Competition Law establishes a 30-day review period for pre-closing approval of transactions. The review period may be extended for a further two months if the FAS believes the prospective transaction might restrict competition with respect to a particular market.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the antimonopoly authorities in connection with actions specified in the first bullet point above if the aggregate asset value or total annual revenues of an acquirer (or its group) and a target (or its group) for the preceding calendar year exceed RUB 200 million and at the same time (i) the total asset value of the target (or its group) exceeds RUB 30 million; or (ii) an acquirer, and/or a target, or any person within the acquirer's group or a target's group are included in the FAS Register; and in connection with actions specified in the second bullet point above if their aggregate asset value or total annual revenues of the relevant companies for the preceding calendar year exceed RUB 200 million.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court order initiated by the FAS, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

The Competition Law does not specifically address issues of liability for the violation of anti-monopoly legislation. Currently, such liability is governed by the Code on Administrative Offences of Russia. In particular, a company which has a dominant position on the market may be subject to a fine of up to 0.15% of its revenues from the sale of particular types of goods, works or services (calculated in accordance with RAS) if it abuses its dominant position on the market for the relevant goods, works or services, or enters into agreements or performs other actions leading to limiting competition.

## TERMS AND CONDITIONS OF THE GDRs

*The following terms and conditions (subject to completion and amendment and excepting sentences or words in italics) will apply to the GDRs, and will be endorsed on each Global Depositary Receipt Certificate.*

The Global Depositary Receipts (“**GDRs**”) represented by this certificate are issued in respect of ordinary shares of nominal value RUB 0.01 each (the “**Shares**”) in Open Joint Stock Company Magnit (the “**Company**”), with five GDRs issued in respect of one Share, pursuant to and subject to an agreement dated February 20, 2008, and made between the Company and JPMorgan Chase Bank, N.A. as depositary (the “**Depositary**”) for the “**Regulation S Facility**” and the “**Rule 144A Facility**” (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Sberbank (Joint Stock Commercial Savings bank of the Russian Federation (open joint stock company)) as Custodian (as defined below) to receive and hold on its behalf the Share certificates in respect of certain Shares (the “**Deposited Shares**”) and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Shares for the benefit of the Holders (as defined below) in proportion to the number of Shares in respect of which the GDRs held by them are issued. In these terms and conditions (the “**Conditions**”), references to the “**Depositary**” are to JPMorgan Chase Bank, N.A. and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the “**Custodian**” are to Sberbank (Joint Stock Commercial Savings bank of the Russian Federation (open joint stock company)) or any other Custodian from time to time appointed under the Deposit Agreement and references to the “**Office**” mean, in relation to the Custodian, its office at 19 Vavilova Street, 117997, Moscow, the Russian Federation (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary).

References in these Conditions to the “**Holder**” of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose (the “**Register**”). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favor of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “**Depositary**” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant that such Shares are validly issued and outstanding, fully paid and non-assessable, that all pre-emptive rights, if any, with respect to such Shares have been validly disappplied, waived or exercised and that each such person making such deposit is duly authorized so to do. Such representations and warranties shall survive the deposit of Shares and the issue of GDRs in respect thereof.

Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement.

### 1. Deposit of Shares and Other Securities

- (A) After the initial deposit of Shares in connection with an Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:
- (i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;

- (ii) Shares subscribed for or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;
- (iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to “Deposited Shares” or “Shares” shall include any such securities, where the context permits; and
- (iv) (to the extent not prohibited by applicable law and regulation) any other Shares in issue from time to time.

To the extent any stamp duty or other governmental charge is or becomes payable in connection with, or in any way related to, the initial deposit of Shares hereunder by the Company or the handling of said Shares by the Custodian, the Company agrees to remain liable for, and to pay, such stamp duty or other governmental charge.

- (B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.
- (C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Russian law or that such deposit would result in any violation of any applicable Russian laws or governmental or stock exchange regulations. The Company may, following receipt from the relevant Russian authority or regulator of formal approval given in anticipation of a further issue of Shares and GDRs to increase the number of Shares that may be deposited in the Regulation S Facility or the Rule 144A Facility, as applicable, instruct the Depositary to refuse to accept for deposit any Shares that would not have been permitted to be so deposited had such formal approval not been obtained, for a period ending no later than the relevant issue date of such further Shares and GDRs and the Depositary will refuse to accept such Shares. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.

In its capacity as Depositary, the Depositary shall not lend Shares or other Deposited Property held hereunder or GDRs, provided that the Depositary reserves the right subject to applicable law and without prejudice to its obligations under Clause 2 of the Deposit Agreement, and unless requested in writing by the Company to cease doing so, to (i) execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be, and (ii) deliver Deposited Property prior to the receipt and cancellation of GDRs in accordance with the Conditions, including GDRs which were issued under (i) above but for which Shares may not have been received (in each case a “pre-release”). The Depositary may receive GDRs in lieu of Shares in satisfaction of a pre-release. Each pre-release shall be (a) preceded or accompanied by a written representation or agreement from the person to whom GDRs or Deposited Property are to be delivered that at the time of such transaction, such person, or its customer (i) beneficially owns the corresponding Shares or GDRs, as the case may be, to be delivered to the Depositary (ii) assigns all beneficial right, title and interest in and to such Shares or GDRs, as the case may be, to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares or GDRs, as the case may be, in trust for the Depositary until those Shares or GDRs are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares or GDRs, as the case may be, on its records, (iv) will deliver such Shares or GDRs, as the case may be, to the Depositary or Custodian upon the Depositary’s request and (v) will not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares or GDRs, as the case may be), other than to deliver such Shares or GDRs, as the case may be, to the Depositary in its capacity as such, (b) at all times fully

collateralized marked to market daily with cash, U.S. government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by GDRs outstanding at any time as a result of pre-releases will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may with the prior written consent of the Company change such limit for purposes of general application. The Depositary may also set limits with respect to the number of Shares and GDRs involved in pre-releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in sub-Clause (b) above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations to deliver the relevant Shares or GDRs, as the case may be, set forth in sub-Clause (a) above (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

Nothing in Condition 1(C) shall oblige the Company to issue any new Shares in respect of any pre-release by the Depositary. The person to whom any pre-release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1(C) shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in SCHEDULE 4 Part A of the Deposit Agreement. During any applicable restricted period, if any, under U.S. federal securities laws commencing with the last closing of the Offering, the person to whom any pre-release of Regulation S GDRs or Regulation S Shares is to be made pursuant to Condition 1(C) shall be requested to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in SCHEDULE 3 Part A of the Deposit Agreement.

*The certificate to be provided in the form of Schedule 3 Part A contains:*

- (1) *a statement by the person acquiring the Regulation S GDRs upon deposit of Shares in the Regulation S Facility that such person acknowledges (or if such person is acting for the account of another person, such other person has confirmed to the person acquiring the Regulation S GDRs that it acknowledges) that the Regulation S GDRs and the Regulation S Shares represented thereby have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;*
- (2) *a certification by the person acquiring the Regulation S GDRs upon deposit of Shares in the Regulation S Facility that either:*

*such person is, or at the time the Shares are deposited and at the time the Regulation S GDRs are issued will be, the beneficial owner of the Shares represented by such Regulation S GDRs, and (i) such person is not a U.S. person (as defined in Regulation S under the Securities Act) and such person is located outside the United States (within the meaning of Regulation S under the Securities Act) and acquired, or have agreed to acquire and will have acquired, the Shares to be deposited outside the United States (within the meaning of Regulation S under the Securities Act), (ii) such person is not an affiliate of the Company or a person acting on behalf of such affiliate, and (iii) such person is not in the business of buying and selling securities or, if such person is in such business, such person is did not acquire the securities to be deposited from the Company or any affiliate thereof in the initial distribution of the GDRs and the Shares;*

**OR**

*such person is a broker-dealer acting on behalf of its customer and such customer has confirmed to such person that it is, or at the time the Regulation S Shares are deposited and at the time the GDRs are issued will be, the beneficial owner of the Shares represented by such GDRs, and (i) it is not a U.S. person (as defined in Regulation S under the Securities Act) and it is located outside the United States (within the meaning of Regulation S under the Securities Act) and acquired, or has agreed to acquire and will have acquired, the Shares to be deposited outside the United States (within the meaning of Regulation S under the Securities Act), (ii) it is not an affiliate of the Company or a person acting on behalf of such an affiliate, and (iii) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the securities to be deposited from the Company or any affiliate thereof in the initial distribution of GDRs and the Shares;*



**OR**

- (i) *any applicable restricted period, if any, under U.S. federal securities laws has expired and the Shares to be deposited may be deposited without registration under the U.S. Securities Act or (ii) (a) the holder of the Shares being deposited has owned the Shares, with the full purchase consideration paid for more than two (2) years or such lesser period as may be required under Rule 144(k) promulgated under the Securities Act and (b) the holder is not at present and during the past three months the holder has not been, an officer, director or ten (10%) percent shareholder of the Company; and*
- (3) *a certification by the person acquiring the Regulation S GDRs upon deposit of Shares in the Regulation S Facility that such person certifies that the Shares being deposited are not “restricted securities” as defined in Rule 144 under the Securities Act.*

*The certificate to be provided in the form of Schedule 4 Part A contains:*

- (1) *a statement by the person acquiring the Rule 144A GDRs upon deposit of Shares in the Regulation 144A Facility that such person acknowledges (or if such person is acting for the account of another person, such other person has confirmed to the person acquiring the Rule 144A GDRs that it acknowledges) that the Rule 144A GDRs and the Rule 144A Shares represented thereby have not been and will not be registered under the Securities Act*
- (2) *a certification by the person acquiring the Rule 144A GDRs upon deposit of Shares in the Rule 144A Facility (or if such person is acting for the account of another person, such other person has confirmed that it certifies) that either:*

*such person is (or the person for the account of which such person is acting is) a qualified institutional buyer (within the meaning of Rule 144A under the Act) and at the time of issue of the Rule 144A GDRs referred to above, such person is (or the person for the account of which such person is acting is) (or one or more qualified institutional buyers for whose account such person is acting) will be the beneficial owner of such Rule 144A GDRs;*

**OR**

*such person is (or the person for the account of which such person is acting is) a broker-dealer acting for the account of a customer, such customer has confirmed to such person (or the person for the account of which such person is acting) that it is a qualified institutional buyer (within the meaning of Rule 144A under the Securities Act) and either (i) at the time of issuance of the Rule 144A GDRs referred to above, it will be the beneficial owner of such Rule 144A GDRs, or (ii) it is acting for the account of a qualified institutional buyer that, at the time of issuance of the Rule 144A GDRs referred to above, will be the beneficial owner of such Rule 144A GDRs;*

- (3) *a statement by the person acquiring the Rule 144A GDRs upon deposit of Shares in the Regulation 144A Facility that such person agrees (or if such person is acting for the account of another person, such person has confirmed to the person acquiring the Rule 144A GDRs that it agrees) that such person (or the person for the account of which such person is acting) will not offer, sell, pledge or otherwise transfer the Rule 144A GDRs or the Rule 144A Shares represented thereby except (a) to a person whom such person and anyone acting on such person’s behalf reasonably believes (or the person for the account of which such person is acting and anyone acting on such other person’s behalf reasonably believes) is a qualified institutional buyer within the meaning of Rule 144A under the Act in a transaction meeting the requirements of Rule 144A, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 under Regulation S under the Securities Act or (c) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.*

The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. The Company will have no liability whatsoever to the Depositary or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depositary or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depositary or any Holder pursuant to this Condition 1(C).

- (D) If (i) the Company did not have a right to file, or, having such a right, failed to duly and timely file, a valid Placement Notice with FSFM, and (ii) a Placement Report required to be registered with the FSFM has not been so registered in respect of the New Shares, within 75 calendar days of the first closing date of the Offering or, in respect of any subsequent issue of new Shares, within 60 calendar days of the last closing date of the issue of such Shares, as the case may be, or such other time as may be agreed between the Company and the Joint Global Coordinators (in respect of the New Shares only) or the Depositary (in respect of any other new Shares) or any new Shares are to be cancelled, whether or not a valid Placement Notice has been due and timely filed or a Placement Report in respect of such Shares has been registered, the Company will notify the Depositary in writing of the number of (i) New Shares or new Shares, as the case may be, which have been or are to be cancelled, (ii) the number of Deposited Shares which have been or are to be cancelled and (iii) the number of GDRs to be cancelled. Upon receipt of this notice and on payment by or on behalf of the Company or other relevant persons (if applicable) to the Depositary or its nominee of the amount of the subscription monies paid in respect of the Deposited Shares which are to be cancelled, the Depositary will, as soon as practicable, give notice to the Holders in accordance with Condition 23 of the cancellation of such number of GDRs as notified to the Depositary by the Company, and will cancel such number of GDRs on a *pro rata* basis or such other basis as the Depositary determines is practicable in its sole discretion. To the extent that the Depositary receives any such amount from or on behalf of the Company or other relevant persons (if applicable), the Depositary will promptly distribute such amount to the Holders of the GDRs cancelled pursuant to this Condition 1(D) *pro rata* to the number of GDRs cancelled.

## **2. Withdrawal of Deposited Property**

- (A) Deposited Property may not be withdrawn until the Depositary has received a written confirmation from the Company that the Shares are listed on the Russian Stock Exchange(s). The Depositary shall notify the Holders of such listings in accordance with Condition 23 as soon as is practically possible after receiving such written confirmation. Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any multiple of five GDRs upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law) at the specified office from time to time of the Depositary or any Agent (located in a place as permitted under applicable law from time to time) to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in SCHEDULE 3 Part B, or SCHEDULE 4 Part B to the Deposit Agreement and available from the Depositary or the Custodian;
- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable,

provided that (a) during any period prior to the Depositary being notified in writing by the Company that either (I) the Placement Report with respect to the New Shares has been registered with the FSFM or (II) a valid notice on placement of the New Shares (a "Placement Notice") has been filed with the FSFM or (b) at any time between the deposit of any subsequent issue of New Shares and the Depositary being notified in writing by the Company that either (I) (x) the Placement Report with respect to such new Shares has been registered with the FSFM or (y) a valid Placement Notice has been duly and timely filed with the FSFM or (II) if later, the Moscow business day next following the due and timely filing of a valid Placement Notice with the FSFM, Holders shall not be entitled to request withdrawal of any Deposited Shares, Holders shall not be entitled to give voting instructions as contemplated by Condition 12 hereof and Clause 7 of the Deposit Agreement, and the Depositary shall not vote or cause to be voted any such New Shares.

*The certificate to be provided in the form of Schedule 3 Part B contains:*

- (1) a statement by the person receiving Deposited Property upon withdrawal in relation to the Regulation S GDRs that such person acknowledges (or if such person is acting for the account of another person, such other person has confirmed that it acknowledges) that the Shares have not been and will not be registered under the Securities Act;*
- (2) a certification by the person receiving Deposited Property upon withdrawal in relation to the Regulation S GDRs (or if such person is acting for the account of another person, such other person has confirmed that it certifies) that such person is, or upon acquisition thereof will be, the beneficial owner of the Regulation S GDRs or Shares;*
- (3) a certification by the person receiving Deposited Property upon withdrawal in relation to the Regulation S GDRs that if such person is a broker-dealer, such person further certifies that such person is acting for the account of its customer and that such customer has confirmed the accuracy of the representations contained in paragraph 2 above that are applicable to it (including the representations with respect to beneficial ownership).*

*The certificate to be provided in the form of Schedule 4 Part B contains:*

- (1) a statement by the person receiving Deposited Property upon withdrawal in relation to the Rule 144A GDRs that such person acknowledges (or if such person is acting for the account of another person, such other person has confirmed to the person receiving Deposited Property that it acknowledges) that the Rule 144A GDRs and the Rule 144A Shares represented thereby have not been and will not be registered under the Securities Act;*
- (2) a certification by the person receiving Deposited Property upon withdrawal in relation to the Regulation S GDRs (or such person is acting for the account of another person, such other person has confirmed that it certifies) that either:*
  - (a) such person is (or the person for the account of which such person is acting is) a qualified institutional buyer (within the meaning of Rule 144A under the Securities Act) acting for such person's (or the person's for the account of which such person is acting) own account or for the account of one or more qualified institutional buyers and either:*
    - (i) such person has (or the person for the account of which such person is acting has) sold or otherwise transferred, or agreed to sell or otherwise transfer and at or prior to the time of withdrawal will have sold or otherwise transferred, the Rule 144A GDRs or the Shares in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act and such person is (or the person for the account of which such person is acting is), or prior to such sale or other transfer such person was (or the person for the account of which such person is acting was), the beneficial owner of the Rule 144A GDRs; or*
    - (ii) such person has (or the person for the account of which such person is acting has) withdrawn or otherwise transferred or agreed to sell or otherwise transfer and at or prior to the time of withdrawal will have sold or otherwise transferred, the Rule 144A GDRs or the Shares to another qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Act and such person is (or the person for the account of which such person is acting is) or prior to such sale such person was (or the person for the account of which such person is acting was) the beneficial owner of the Rule 144A GDRs; or*
    - (iii) such person (or the person for the account of which such person is acting) will be the beneficial owner of the Shares upon withdrawal and accordingly, such person agrees (or if such person is acting for the account of one or more qualified institutional buyers, each such qualified institutional buyer has confirmed to such person that it agrees) that (x) such person (or the person for the account of which such person is acting) will not offer, sell, pledge or otherwise transfer the Shares except (A) to a person whom such person or anyone acting on such person's behalf reasonably believes (or the person for the account of which such person is acting and anyone acting on such other person's behalf reasonably believes) is a qualified institutional buyer within the*

*meaning of Rule 144A under the Securities Act in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or (C) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state or other jurisdiction in the United States, and (y) such person (or the person for the account of which such person is acting) will not deposit or cause to be deposited such Shares into any unrestricted depositary facility in respect of Shares established or maintained by a depositary bank (including any such facility maintained by the Depositary), other than a Rule 144A restricted depositary receipt facility so long as Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act;*

**OR**

- (b) *such person is located outside the United States (within the meaning of Regulation S under the Securities Act); such person acquired or have agreed to acquire and at or prior to the time of the withdrawal will have acquired, the Rule 144A GDRs or the Shares outside the United States (within the meaning of Regulation S); and such person is, or upon acquisition thereof will be, the beneficial owner of the Rule 144A GDRs or Shares;*

**OR**

- (c) *such person (or its customer) are (is) a Non-U.S. person (within the meaning of Regulation S under the Securities Act) and on such person’s or its customer’s behalf such person has instructed the Depositary to cancel such person’s 144A GDRs and to issue to such person (or to its customer) Regulation S GDRs representing the Shares deliverable on the cancellation of such Rule 144A GDRs.*
- (3) *a certification by the person receiving Deposited Property upon withdrawal in relation to the Regulation S GDRs that, if such person is a broker-dealer, such further certifies that such person is acting for the account of its customer and that its customer has confirmed the accuracy of the representations contained in paragraph 2 above that are applicable to it (including the representations with respect beneficial ownership) and, if paragraph 2(a)(iii) above is applicable to its customer, has confirmed that such customer will comply with the agreements set forth in paragraph 2(a)(iii) above.*
- (B) Certificates for withdrawn Deposited Shares will contain such legends, including the legends described under “Transfer Restrictions”, and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- (C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (a) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:
- (i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or
  - (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),  
in each case to the specified office from time to time of the Depositary or, if any, any Agent (located in a place as is permitted under applicable law from time to time) as designated by the surrendering Holder in such accompanying order as aforesaid.
- (D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (E) Subject as set out above, upon request by any Holder in accordance with Condition 2 for withdrawal of Deposited Property and upon compliance therewith including provision to the Depositary of a duly executed and completed certificate substantially in the form set out in SCHEDULE 4 Part B of the Deposit Agreement by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of Rule 144A GDRs, or a duly executed and completed certificate substantially in the form set out in SCHEDULE 3 Part B of the Deposit Agreement by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of the Regulation S GDRs, as applicable (in each, Part B of SCHEDULE 3 and SCHEDULE 4 of the Deposit Agreement may be modified in a manner not inconsistent with the provisions of this Agreement as may be reasonably required by the Depositary in order for the Depositary to perform its duties under this Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise) the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery or collection (i) during any period when the transfer of Shares has been blocked on the account due to participation in any shareholders' meeting of the Company when notified by the Company in writing that such suspension is necessary, or (ii) the Depositary is notified by the Company in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations, or (iii) the Depositary is notified by the Company in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Russian law or government resolution or the Charter, or for any other reason as agreed with the Depositary, as notified to the Depositary by the Company from time to time, or (iv) in the case of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR, during any period prior to the Depositary being notified in writing by the Company that a Placement Report in respect of the Shares represented by those GDRs has been registered with the FSFM or (v) in the case where the Depositary has been informed by the Company that a Placement Report has been prepared in respect of any other new Shares represented by GDRs, then in relation to those GDRs, during any period from deposit of such new Shares prior to the Depositary being notified in writing that the Placement Report relating to those Shares has been registered with the FSFM.

For the avoidance of doubt, in the absence of any such notification from the Company, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels amongst beneficial owners) and the

Depository shall not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, provided that it is complying with a written notification from the Company pursuant to this Condition 2(E), the Depository shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depository shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depository or by their respective agents pursuant to the provisions of the Deposit Agreement.

Neither the Depository nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Condition 1(C). Notwithstanding the foregoing, each Holder and owner of Rule 144A GDRs acknowledges that at any time (a) the Company maintains an unrestricted depository receipt facility with respect to the Shares in the United States (including, without limitation, the Regulation S Facility) and (b) any of the Rule 144A Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, and each of the Depository and the Custodian agrees that, neither the Custodian nor the Depository will make any actual delivery of Rule 144A Shares to any Holder or beneficial owner at an address within the United States.

- (F) The Depository may suspend the withdrawal of all or any category of Deposited Property during any period when the register of shareholders or other relevant holders of other securities of the Company is closed, generally or in one or more localities, or in order to comply with any applicable Russian law or governmental or stock exchange regulations. The Depository shall restrict the withdrawal of Deposited Shares whenever it is notified in writing that such withdrawal would result in a breach of ownership restrictions under applicable Russian law.
- (G) The Depository may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depository, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of this Agreement or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

### **3. Transfer and Ownership**

The GDRs are in registered form, with five GDRs issued in respect of one Share. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration in the records of the Depository. The Depository will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depository and the Company as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depository of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

#### **4. Cash Distributions**

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company and amounts received pursuant to Clause 3.20 of the Deposit Agreement) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; provided that:

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

#### **5. Distributions of Shares**

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws, rules and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

#### **6. Distributions Other than in Cash or Shares**

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

## 7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Company shall give timely notice thereof to the Depositary and, thereafter, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, give details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- i. if, at its discretion and subject to any additional agreements the Depositary may require, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States dollars or other relevant currency determined by the Depositary in each case along with any premium determined by the Depositary to take into account currency fluctuations together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- ii. if, at its discretion and subject to any additional agreements the Depositary may require, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or
- iii. if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders, have not taken up rights through the Depositary as provided in (i) above endeavor to sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own willful default, gross negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use all reasonable endeavors (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate, in order for the



Depository to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depository will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depository of an opinion from counsel satisfactory to the Depository that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depository shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Company nor the Depository shall be liable for any losses, damages or expenses resulting from any failure to do so.

## **8. Conversion of Foreign Currency**

Whenever the Depository shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgment of the Depository be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depository shall as soon as practicable itself convert or cause to be converted, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depository, with the assistance of the Company, may make reasonable efforts to apply, or procure that an application be made, for such approval or license, if any, as it may consider desirable. If at any time the Depository shall determine that in its judgment any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or license of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depository, is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depository, the Depository may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depository may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depository may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depository to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

## **9. Distribution of any Payments**

Any distribution under Conditions 4, 5, 6, 7 or 10 will be made by the Depository to those Holders who are Holders of record on the record date established by the Depository for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) and, if practicable in the opinion of the Depository, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by check drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depository and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), Euroclear S.A./N.V. or DTC, as operator of the Euroclear System ("Euroclear"), as the case may be. The Depository or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.

Delivery of any securities or other property or rights other than cash shall be made to the entitled Holder, subject to any laws or regulations applicable thereto.

## **10. Capital Reorganization**

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any reorganization, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

## **11. Taxation and Applicable Laws**

- (A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- (B) If any governmental or administrative authorization, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorization, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorization, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duty to obtain (but shall, where assistance is reasonably requested by the Company and such assistance does not require the Depositary to take any action in conflict with market practice or any applicable laws or in a capacity other than its capacity as Depositary, at the expense of the Company, make reasonable endeavors to assist the Company to obtain) any such authorization, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense.

## **12. Voting Rights**

- (A) As soon as reasonably practicable after receipt from the Company of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy, which shall be the same date as the corresponding record date set by the Company or as near as reasonably practicable to such corresponding record date set by the Company. The Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of the FSFM, or the Russian Stock Exchange(s) on which the Shares are listed), exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of or

governing the Deposited Property (which provisions, if any, shall be summarized in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the receipt, within a reasonable time period, from a Holder of GDRs as of the GDR record date of voting instructions in the manner specified by the Depositary, the Depositary shall endeavor, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

- (B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law or regulation, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted. The Company agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.
- (C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of the Russian Stock Exchange(s) on which the Shares are listed). In particular, prior to the Depositary being notified in writing by the Company that the Placement Report in respect of the New Shares has been registered with the FSFM, the Depositary shall have no obligation to take any such action. The Company agrees that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

### **13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges**

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale and subject to Russian laws, rules and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

### **14. Liability**

- (A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the

Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depository for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.

None of the Depository, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR, beneficial owner of a GDR or any person with an interest in a GDR if, by reason of any provision of any present or future law, rule or regulation of Russia or any other country or of any governmental or regulatory authority or any securities exchange or market or automated quotation system, or by reason of the interpretation or application of any such present or future law, rule or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depository, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter of the Company, or any act of God, war, terrorism or other circumstance beyond any of their controls any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of willful default, gross negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay, caused as aforesaid, in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

None of the Depository, the Custodian nor any Agent shall be liable (except by reason of its own willful default, gross negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.

- (B) The Depository and each of its Agents and their respective affiliates may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depository, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or beneficial owners of GDRs, or any other person for any profit arising therefrom.

The Depository shall endeavor to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depository's normal practices and procedures, but shall have no liability (in the absence of its own willful default, gross negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own willful default, gross negligence or bad faith the Depository will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.

- (C) The Depository shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

- (D) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (E) In connection with any proposed modification, waiver, authorization or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or beneficial owners of GDRs or any other person.
- (F) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.
- (G) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- (H) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by any member of the Board of Directors of the Company or by a person duly authorized either by the Charter or the Board of Directors of the Company or such other certificate from persons specified in Condition 14(G) or any other person whom the Depositary reasonably believes to have been authorized by the Company which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (I) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own willful default, gross negligence or bad faith or that of its agents, officers, directors or employees.
- (J) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.
- (K) The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent selected by the Depositary with reasonable care, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Subject to Section 12.5 of the Deposit Agreement, the Depositary, except for agents appointed by the Depositary to perform transfer agency services, will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.
- (L) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register.
- (M) Where Deposited Property is held in a jurisdiction outside the United Kingdom, there may be settlement, legal and regulatory requirements in such jurisdiction which are different from those applying in the United Kingdom, and there may be different practices for the separate identification of assets held by a custodian for its clients.

- (N) The Depositary shall under no circumstances have any liability arising from the Conditions or from any obligations which relate to the Conditions (including, but not limited to, obligations in tort), whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.
- (O) For the purposes of Condition 14(N):
- (i) “consequential loss or damage” means loss or damage of a kind or extent which was not reasonably foreseeable at the time the Deposit Agreement was entered into as a serious possibility in the event of the breach of obligation in question.
  - (ii) “special loss or damage” means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time the Deposit Agreement was entered into or later.
- (P) The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of its own gross negligence, willful default or bad faith) be responsible for any losses, liabilities or expenses incurred in connection with any such deposit.
- (Q) The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interest of the Holders think fit provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary’s ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company’s expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate, arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition, which includes the power to sub-delegate, shall provide that the delegate or sub-delegate, as the case may be, shall be required to provide the services delegated or sub-delegated in substantially the same manner as such services are required to be provided under the Agreement and the delegate or the sub-delegate, as the case may be, shall, within a specified time of any delegation, sub-delegation or amendment, extension or termination thereof, give notice to the Company and the Depositary.

The liability of the Custodian is set forth in the Custody Agreement between the Depositary and the Custodian (the “Custody Agreement”). Under the terms of the Custody Agreement, the Custodian is only liable for its breach of the Custody Agreement, its negligence, willful default or fraud in connection with the performance of its obligations thereunder and for loss of Shares or funds held in custody under the Custody Agreement. In each case, the liability of the Custodian with respect to the loss of Shares or other Deposited Property or funds will be limited to direct (but not indirect, including consequential) losses incurred by Holders and beneficial owners of GDRs. Moreover, only the Depositary, acting on behalf of Holders and beneficial owners of GDRs, will be permitted to bring claims against the Custodian in respect of such losses incurred by Holders and beneficial owners of GDRs as a result of the acts of, or the failure to act by, the Custodian. Any such claims by the Depositary against the Custodian will be resolved exclusively by arbitration. The

Depository agrees to promptly remit to Holders any amounts recovered from such claims (exclusive of costs and expenses incurred by the Depository in connection with recovering such losses which are not reimbursed by the Custodian and net of any losses incurred by the Depository). The Depository shall have no other responsibility or liability to Holders or beneficial owners of GDRs with respect to the acts of, or the failure to act by, the Custodian or for the unavailability of the Shares or other Deposited Property or the failure to make any distribution of cash or property with respect thereto as a result of such unavailability. The liability of the Custodian for such losses incurred by Holders and beneficial owners of GDRs, the obligation of the Depository to bring claims against the Custodian for such losses and the method by which such claims may be brought are subject to the terms and conditions of the Custody Agreement, a copy of which is available from the Depository upon the written request of any Holder.

#### **15. Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depository may require, replacement GDRs will be issued by the Depository and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depository or (at the request, risk and expense of the holder) at the specified office of any Agent.

#### **16. Depository's Fees, Costs and Expenses**

(A) The Depository shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or for the cancellation of GDRs (other than cancellation as part of the stabilization process by Joint Global Coordinators) upon the withdrawal of Deposited Property: US\$0.05 or less per GDR issued or cancelled;
- (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depository to be a reasonable charge to reflect the work, costs and expenses involved;
- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depository to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;
- (iv) for services performed by the Depository in administering the GDRs (including, without limitation, for receiving and paying any cash dividends on or in respect of Deposited Shares) a fee of US\$0.02 per GDR per calendar year for such services unless otherwise agreed with the Company (which agreement need not be notified to holders of GDRs before the record date for such fees) (fees may be charged on a periodic basis during each calendar year or in full at one time, and shall be assessed against Holders of GDRs as of the record date or record dates set by the Depository during each calendar year and shall be payable at the sole discretion of the Depository by billing such Holders or by deducting such charge from one or more cash dividends or other cash distributions);
- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): U.S.\$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution;
- (vi) for the expenses incurred by the Depository, the Custodian or their respective agents in connection with inspections of the Share Register maintained by the Russian Share Registrar, if applicable: an annual fee of U.S.\$0.01 or less per GDR (such fee to be assessed against Holders of record as of the date or dates set by the Depository as it sees fit and collected at the sole discretion of the Depository by billing such Holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions); and

- (vii) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of U.S. \$0.05 or less per GDR (or portion thereof);
- (viii) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR.

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian in connection with any of the above including, but not limited to charges imposed by a central depositary and such customary expenses as are incurred by the Depositary in the conversion of currencies other than U.S. dollars into U.S. dollars and fees imposed by any relevant regulatory authority.

- (B) The Depositary is entitled to receive from the Company such fees, taxes, duties, charges, costs, expenses and other payments as agreed between them in the Deposit Agreement or as specified in a separate agreement between the Company and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.

## **17. Agents**

- (A) The Depositary shall be entitled to appoint one or more agents (the “Agents”) for the purpose, inter alia, of making distributions to the Holders as well as for any other reason under the Deposit Agreement or these Conditions.
- (B) Notice of appointment or removal of any Agent providing services outside of the ordinary course of business or of any change in the specified office of the Depositary will be duly given by the Depositary to the Company.

## **18. Listing**

The Company has undertaken in the Deposit Agreement to use its best endeavors to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for GDRs on the Official List of the UK Listing Authority and admission to trading on the regulated market for listed securities of the London Stock Exchange and a listing of the Shares on at least one Russian Stock Exchange. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the London Stock Exchange in connection therewith. Where the Company can no longer maintain a listing for the GDRs on the London Stock Exchange or it becomes unreasonably burdensome or impracticable to do so, and such listings are suspended, the Company will use all reasonable endeavors to obtain and maintain the quotation for, or listing of, the GDRs on such other EEA Regulated Market as it may decide.

## **19. The Custodian**

The Depositary has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 calendar days’ notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (approved (i) by the Company, such approval not be unreasonably withheld or delayed, and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with the Company, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the



Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not be unreasonably withheld or delayed, and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

## **20. Resignation and Termination of Appointment of the Depositary**

- (A) Unless otherwise agreed to in writing between the Company and Depositary from time to time, the Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 calendar days' notice in writing to the Company and the Custodian. In addition, the Depositary and the Company agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of such either notice, notice thereof shall be duly given by the Depositary to the Holders. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect (a) other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary until the appointment by the Company of a successor depositary, (b) the grant of such approvals as may be necessary to comply with applicable laws and with the Charter for the transfer of the Deposited Property to such successor depositary, and (c) the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavors to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 25.

- (B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the resigning Depositary shall thereafter have no obligation thereunder. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations.
- (C) The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as JPMorgan Chase Bank, N.A. is acting as Depositary under the Deposit Agreement.

## **21. Termination of Deposit Agreement**

- (A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 calendar days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

If the Company terminates the Deposit Agreement, it will (unless the termination is due to the willful default, gross negligence or bad faith of the Depositary) be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Company.

- (B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of paragraph (D) of Condition 2 and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.

If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

## **22. Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 15 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary and if required, the permission of the FSFM (or its successor organization) in any respect which they may deem necessary or desirable. Unless impracticable in the circumstances to do so, at least ten business days' notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses or other such expenses) or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of 30 days after such notice shall have been given. During such period of 30 days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, free of the charge specified in paragraph 16(A)(i) of Condition 16 for such delivery and surrender but otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR. The Company and the Depositary may at any time amend and supplement the Deposit Agreement or these Conditions in order to comply with mandatory provisions of applicable laws, rules and regulations and such amendments or supplements to the Deposit Agreement and these Conditions may become effective before notice thereof is given to Holders or within any other period required to comply with such laws, rules or regulations.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

### **23. Notices**

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary and, so long as the GDRs are listed on the Official List of the UK Listing Authority and admitted to trading on the market for listed securities of the London Stock Exchange and if and to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published by the Company in a leading newspaper having general circulation in the UK. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 16 of the Deposit Agreement.

### **24. Reports and Information on the Company**

- (A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, facsimile or electronic transmission as agreed between the Company and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or another other stock exchange, in accordance with and Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.
- (B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- (C) For so long as any Rule 144A GDRs or shares represented thereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDRs or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is neither subject to and in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorized the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery

requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, beneficial owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

**25. Copies of Company Notices**

On or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, the Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of such notice and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarized form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (a) of Clause 9, and shall make the same available to Holders in such manner as it may determine.

**26. Moneys Held by the Depositary**

The Depositary will hold moneys received by it, in respect of or in connection with the Deposited Property in an account with itself as banker and not as trustee, will not hold such moneys in accordance with the FSA's client money rules, shall be entitled to deal with such moneys in the same manner as other moneys paid to it as a banker to its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

**27. Severability**

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

**28. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions**

- (A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.
- (B) To the extent that provisions of or governing any Deposited Property, the Charter or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and beneficial owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and beneficial owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or beneficial owners.

**29. Governing Law**

- (A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction of the English courts. The Company has also agreed in the Deed Poll to allow the Holders to elect that disputes are resolved by arbitration.
- (B) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“Proceedings”) may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not.)
- (C) The Company irrevocably appoints Clifford Chance Secretaries Limited, currently situated at 10 Upper Bank Street, London, E14 5JJ, United Kingdom as its authorized agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

**30. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

## SUMMARY OF PROVISIONS RELATING TO THE GDRs WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR Certificate in registered form and (ii) a single Master Rule 144A GDR Certificate in registered form. The Regulation S Master GDR has been registered in the name of and held by BNP Paribas as common depositary for Clearstream, Luxembourg and Euroclear, and the Rule 144A Master GDR has been registered in the name of Cede & Co. as nominee. The Master GDRs contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs set out in this Prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

Any increase or decrease in the number of GDRs evidenced hereby from that initially notified to the Holder, as defined in the Conditions, will promptly be notified to the Holder by the Depositary.

### Exchange

The Regulation S Master GDR and the Rule 144A Master GDR will only be exchanged for certificates in definitive registered form evidencing GDRs in the circumstances described in (i), (ii), (iii), or (iv) below in whole but not, except in the case of (iii) below, in part. Subject to the terms and conditions hereof, the Depositary hereby irrevocably undertakes to deliver certificates evidencing GDRs in definitive registered form in exchange for either the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, to persons entitled to interests in the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, within 60 days in the event that:

- (i) the holder of the Rule 144A Master GDR is unwilling or unable to continue as common depositary (or as nominee thereof) and a successor common depositary (or successor depositary) (or successor nominee thereof), is not appointed within 90 calendar days; or
- (ii) DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iii) either (a) Clearstream or Euroclear, in the case of the Regulation S Master GDR, or (b) DTC, in the case of the Rule 144A Master GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does, in fact, do so and no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Company, the Depositary or its Agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive form;

Any such exchange shall be at the expense of the relevant Holder.

In case of the Rule 144A Master GDR, in relation to (iii) above any person appearing in the records maintained by DTC as entitled to any interest in this Rule 144A Master GDR shall be entitled to require the Holder to procure the exchange of an appropriate part of this Rule 144A Master GDR for a definitive GDR for an interest held by such person in this Rule 144A Master GDR in the above circumstances upon notice to the Holder. Any such exchange shall be at the expense (including printing costs) of the Holder in the case of such appropriate part or at the expense of the Holders in case of exchange of the whole of the Rule 144A Master GDR for the definitive GDRs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC.

Upon any exchange of a part of this Rule 144A Master GDR for a certificate evidencing a GDR or GDRs in definitive form or any distribution of GDRs pursuant to Conditions 3, 5, 6, 7 or 10, or any reduction in the number of GDRs evidenced hereby following any withdrawal of any Deposited Property pursuant to Condition 2, or any increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered on the Register of the Depositary, whereupon the number of GDRs represented by this Rule 144A Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the Register, *provided always that* if the number of GDRs evidenced by the Regulation S Master GDR and/or the Rule 144A Master GDR is reduced to zero the Regulation S Master GDR and/or the Rule 144A Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

### **Voting Rights, Payments and Distributions**

GDR holders will have voting rights in respect of the underlying shares as set forth in Condition 12 and the Deposit Agreement. The Depositary will exercise voting rights only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement and if permitted by law.

Payments of cash dividends and other amounts (including cash distributions) in respect of the GDRs evidenced by the Regulation S Master GDR or the Rule 144A Master GDR will be made by the Depositary through Clearstream and Euroclear in respect of the Regulation S Master GDR and through DTC in respect of the Rule 144A Master GDR on behalf of persons entitled thereto upon receipt of funds therefor from the Company. Any free distribution or rights issue of Shares to the Depositary on behalf of Holders may result in the number of GDRs being adjusted to reflect the enlarged number of GDRs it thereby evidences.

### **Surrender of GDRs**

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by the Common Depositary on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by the Common Depositary. The delivery or production of any such evidence shall be sufficient evidence, in favor of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable, in respect of the Deposited Property represented by such GDRs.

### **Notices**

In respect of the Regulation S Master GDR, for so long as it is registered in the name of a common depositary on behalf of Euroclear and Clearstream, Luxembourg, and, in respect of the Rule 144A Master GDR, for as long as it is registered in the name of DTC or its nominee, notices may be given by the Depositary by delivery of the relevant notice to the Common Depositary for communication to persons entitled thereto in substitution for publication required by Condition 23.

### **Information**

For so long as any Rule 144A GDRs or shares represented thereby are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDRs or the beneficial owner of an interest in such Rule 144A GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4).

### **Governing Law**

The Regulation S Master GDR and the Rule 144A Master GDR will be governed by and construed in accordance with English law.

## TAXATION

*The following summary of material US federal income, United Kingdom and Russian tax consequences of ownership of Shares or GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of Shares or GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Shares or GDRs.*

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT THEIR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF SHARES OR GDRs, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS PROSPECTUS, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

### US Federal Income Tax Considerations

**The discussion of US tax matters set forth in this Prospectus was written in connection with the promotion or marketing of this offering and was not intended or written to be used, and cannot be used, by any person, for the purpose of avoiding tax-related penalties under US federal, state or local tax law. Each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.**

The following is a summary of certain US federal income tax considerations relevant to a US Holder (as defined below) acquiring, holding or disposing of Shares or GDRs. This summary is based upon existing US federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of US federal income taxation which may be important to particular investors in light of their individual investment circumstances, including investors subject to special tax rules, such as residents of Russia for Russian tax purposes, investors that conduct a business or have a permanent establishment in Russia, financial institutions, insurance companies, broker-dealers, tax-exempt organizations, partnerships, holders who are not US Holders, holders who own (directly, indirectly or constructively) 10% or more of our voting stock, investors that will hold Shares or GDRs as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for US federal income tax purposes, or investors that have a functional currency other than the US Dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any non-US, state or local tax considerations. This summary assumes that investors will hold their Shares or GDRs as “**capital assets**” (generally, property held for investment) under the US Internal Revenue Code of 1986, as amended. You are urged to consult your tax advisor regarding the US federal, state, local, and non-US income and other tax considerations relevant to an investment in the Shares or GDRs.

For purposes of this summary, a “**US Holder**” is a beneficial owner of Shares or GDRs that is for US federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organized under the laws of, the United States or any State thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source, or (iv) a trust the administration of which is subject to the primary supervision of a US court and which has one or more US persons who have the authority to control all substantial decisions of the trust. The US federal income tax treatment of a partner in a partnership, or any other entity treated as a partnership for US federal income tax purposes, that holds Shares or GDRs will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership holding Shares or GDRs should consult its tax advisors concerning the US federal income tax consequences of the acquisition, ownership and disposition of Shares or GDRs by the partnership.

### **Dividends**

Subject to the application of the passive foreign investment company rules discussed below, the US Dollar value of distributions paid by us (including the amount of any Russian tax withheld) out of our earnings and profits, as determined under US federal income tax principles, will be subject to tax as foreign source ordinary dividend income and will be includible in your gross income upon actual or constructive receipt.



Since we do not expect to calculate earnings and profits under US federal income tax principles, you will generally be required to treat the full amount of any distribution as a dividend. Subject to applicable limitations, dividends received by non-corporate US Holders may be subject to US federal income tax at lower rates (generally 15% under current law) than other types of ordinary income. We currently believe that dividends paid in respect of Shares or GDRs generally should qualify for such lower rate for non-corporate US Holders that satisfy certain minimum holding period and other applicable requirements. Dividends received on the Shares or GDRs will not be eligible for the dividends received deduction allowed to corporations. You should consult your own advisor about how to account for payments that are not made in US Dollars in your particular circumstances and, if you are not a corporation, about the applicability and implications of this preferential rate on dividends in your particular circumstances.

Subject to certain limitations, Russian withholding tax, if any, paid in connection with any distribution with respect to Shares or GDRs may be claimed as a credit against the US federal income tax liability of a US Holder if such US Holder elects for that year to credit all foreign income taxes; otherwise, such Russian withholding tax may be taken as a deduction. If you are eligible for benefits under the double tax treaty between the United States and Russia (the “**Treaty**”), you will not be entitled to a foreign tax credit for the amount of any Russian taxes withheld in excess of the maximum rate under the Treaty and with respect to which you can obtain a refund from the Russian taxing authorities. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. As the relevant rules are very complex, you should consult your own tax advisors concerning the availability and utilization of the foreign tax credit in your particular circumstances.

### ***Sale or Other Disposition of Shares or GDRs***

Subject to the application of the passive foreign investment company rules discussed below, you will recognize capital gain or loss upon the sale or other disposition of Shares or GDRs in an amount equal to the difference between the US Dollar value of the amount realized upon the disposition and your adjusted tax basis in such Shares or GDRs (generally their cost in US Dollars). Any capital gain or loss will be long-term if the Shares or GDRs have been held for more than one year and will generally be US source gain or loss for US foreign tax credit purposes. The deductibility of capital losses may be subject to limitations. You should consult your own advisor about how to account for payments not made in US Dollars in your particular circumstances.

### ***Passive Foreign Investment Company Rules***

We do not believe that we will be classified as a passive foreign investment company (a “**PFIC**”) for our preceding or current tax year nor do we expect to be classified as a PFIC for subsequent tax years. However, the determination of whether we are a PFIC is made annually and is based on the composition of our assets and income on certain dates. Therefore, it is possible that we could become a PFIC in the current or any future year due to our asset or income composition, as well as that of our subsidiaries, on the relevant testing dates. In general, a non-US corporation will be classified as a PFIC for any taxable year if at least (i) 75% of its gross income is classified as “passive income” or (ii) 50% of the average quarterly value of its assets produce or are held for the production of passive income. In making this determination, the non-US corporation is treated as earning its proportionate share of any income and owning its proportionate share of any assets of any company in which it holds a 25% or greater interest by value. For these purposes, cash (including the proceeds of a stock offering) is considered a passive asset and gross interest is considered as passive income. Under the PFIC rules, if we were considered to be a PFIC at any time that you held our Shares or GDRs, we would continue to be treated as a PFIC with respect to your investment unless you have made certain elections under the PFIC rules.

If we are considered a PFIC at any time that you hold our Shares or GDRs, you may be subject to materially adverse US federal income tax consequences compared to an investment in a company that is not considered a PFIC, including being subject to greater amounts of US tax and being subject to additional tax form filing requirements. Additionally, dividends paid by us would not be eligible for the special reduced rate of tax described above under “—*Dividends.*” You should consult your own tax advisor about the application of the PFIC rules to you.

### ***Information Reporting and Backup Withholding***

You may be subject to information reporting on the amounts received by you, unless you establish that you are exempt from these rules. If you do not establish you are exempt from these rules, you may be subject to backup withholding on the amounts received unless you provide your taxpayer identification

number and otherwise comply with the requirements of the backup withholding rules. The amount of any backup withholding from a payment that you receive will be allowed as a credit against your US federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the US Internal Revenue Service.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT THEIR OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE SHARES OR GDRs UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

### **United Kingdom Tax Considerations**

The comments below are of a general nature and, except as otherwise expressly stated, are based on United Kingdom (“**UK**”) law and on the published practice of Her Majesty’s Revenue and Customs (“**HMRC**”), both as at the date of this Prospectus and both of which are subject to change, possibly with retrospective effect. Except as otherwise stated, the comments below only relate to the UK tax position of absolute beneficial owners of Shares or GDRs (1) who are either (a) individuals resident or ordinarily resident in the UK for UK tax purposes, (b) individuals who, although neither resident nor ordinarily resident in the UK for UK tax purposes carry on a trade profession or vocation in the UK through a branch or agency in the UK for the purpose of which such Shares or GDRs are held, (c) corporate bodies resident in the UK for UK tax purposes or (d) corporate bodies who, although not so resident, carry on a trade, profession or vocation through a permanent establishment in the UK for the purposes of which such Shares or GDRs are held; and (2) who are not treated as resident in any jurisdiction other than the UK for any tax purposes; and (3) who do not have a branch, agency, permanent establishment or other fixed base in any jurisdiction other than the UK with which the holding of such Shares or GDRs is connected; and (4) whose investments in such Shares or GDRs (including any operations associated with such investments) are bona fide commercial transactions the purpose or one of the purposes of which is not the avoidance of a liability to taxation (“**UK holders**”).

In addition, the comments below (1) only address the tax consequences for UK holders who hold the Shares and the GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example, brokers or dealers; (2) do not address the tax consequences for UK holders that are banks, financial institutions, insurance companies, collective investment schemes, persons connected with the Company or with depositary arrangements or clearance services, intermediaries, persons who benefit from special exemptions from UK taxation or persons regarded as having obtained their Shares or GDRs by reason of employment; (3) assume that the UK holder does not either alone or together with one or more associated or connected persons, directly or indirectly, control 10% or more of the voting power of the Company; (4) assume that there is no register in the UK in respect of the Shares or the GDRs; (5) assume that the Depositary is not incorporated in the UK; (6) assume that neither the Shares nor the GDRs are or will be paired with shares issued by a company incorporated in the UK; (7) assume that the UK holder who holds GDRs is beneficially entitled to the underlying Shares and to the dividends on those Shares; (8) assume that the Company is not resident in the UK for UK tax purposes; and (9) assume that the Company is not a collective investment scheme for the purposes of Part 17 of the Financial Services and Markets Act 2000.

The following comments are intended only as a general guide and are not intended to be, nor should they be considered to be, legal or tax advice to any particular UK holder. These comments do not purport to cover all UK tax matters that may be important to any particular UK holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under the UK law and HMRC practice, of the acquisition, ownership and disposal of Shares or GDRs in their own particular circumstances, by consulting their own professional tax advisers.

### ***UK taxation of dividends***

#### ***Withholding of UK tax from dividends***

Assuming that amounts paid in respect of dividends under the GDRs do not have a UK source, there should be no obligation to withhold UK tax from the payment of such amounts.

There should be no obligation to withhold UK tax from the payment of dividends in respect of the Shares.

## **Dividends received by UK holders**

### *General*

UK holders may be subject to UK income tax or UK corporation tax (as the case may be) on the gross amount of any dividend paid before the deduction of any non-UK withholding taxes. Any non-UK tax withheld from dividends paid to UK holders and not recoverable from the relevant non-UK tax authority (whether under an applicable treaty or otherwise) will generally be available as a credit against all or some of the UK tax payable by the UK holder in respect of such dividend, subject to the detailed rules of UK tax law and practice regarding the availability and calculation of any such credit. In particular, non-UK tax will not generally be refunded to a UK holder in the event that the amount of such non-UK tax exceeds the amount of UK tax payable by such UK holder.

### *Individual UK holders*

A UK holder who is an individual resident and domiciled in the UK will generally be subject to UK income tax on the dividend paid in respect of the Shares or the GDRs. A UK holder who is an individual resident but not domiciled in the UK will generally, subject to the proposed changes to UK tax law referred to in the following paragraph, be subject to UK income tax on the dividend paid in respect of the Shares or the GDRs only to the extent that the dividend is remitted or treated as remitted to the UK.

The UK government has announced (as part of the 2007 Pre-Budget Report) and confirmed (as part of the 2008 Budget) its intention to implement, with effect from 6 April 2008, significant changes to the taxation of UK holders who are individuals not domiciled in the UK for UK tax purposes but who have been resident in the UK for UK tax purposes for at least seven of the nine previous UK tax years. It is proposed that any such UK holder will generally be subject to UK income tax in respect of a dividend in respect of the Shares or the GDRs from 6 April 2008: (a) if that UK holder has elected in relation to a tax year for that UK holder's non-UK source income and gains to be taxed in the UK in that tax year only on a remittance basis and the dividend or other money or property derived from the dividend is remitted, or treated as remitted, to the UK during any such tax year (it is proposed that such an election would require the UK holder to pay a minimum amount of £30,000 in tax to HMRC, credit in respect of which may be available against non-UK taxes), and (b) for the tax year in which the dividend is paid if that UK holder has not elected in relation to that tax year for that UK holder's non-UK source income and gains to be taxed in the UK only on a remittance basis. Certain UK income tax allowances may not be available to UK holders who are or elect to be subject to UK tax on non-UK source income and gains only on a remittance basis.

**The legislation implementing the announcements referred to in the preceding paragraph has not been finalized or enacted as at the date of this Prospectus. Accordingly, the statements in the preceding paragraph may not represent an accurate summary of the UK tax law which is enacted and/or of future HMRC practice with regard to such UK tax law. UK holders, in particular those who are individuals not domiciled in the UK, should consult their own professional tax advisers as to the impact on their own particular circumstances of the proposals referred to in the previous paragraph.**

### *Corporate UK holders*

Corporate UK holders will generally be subject to UK corporation tax on dividends paid in respect of Shares or GDRs.

### *Provision of information*

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of an individual may be required to provide certain information to HMRC regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be shared with tax authorities in other countries. Certain payments in respect of the Shares or GDRs may constitute "foreign dividends" for this purpose.

## **UK taxation of disposals of Shares or GDRs by UK holders**

### *General*

Any disposal (including a part disposal) by a UK holder of interests in the Shares or the GDRs may give rise to a chargeable gain or allowable loss for the purpose of UK taxation of chargeable gains, depending on the UK holder's particular circumstances.

### *Individual UK holders*

A UK holder who is an individual domiciled in the UK will generally be liable to UK capital gains tax on any chargeable gains realized (or treated as realized) on the disposal of an interest in the Shares or GDRs, subject to the availability of any allowances, exemptions or reliefs. A UK holder who is an individual not domiciled in the UK will generally, subject to the proposed changes to UK tax law referred to in the following paragraph, be liable to UK capital gains tax to the extent that the chargeable gains made on the disposal of an interest in the Shares or the GDRs are remitted or treated as remitted to the UK.

The UK government has announced (as part of the 2007 Pre-Budget Report) and confirmed (as part of the 2008 Budget) its intention to implement, with effect from 6 April 2008, significant changes to the taxation of UK holders who are individuals not domiciled in the UK for UK tax purposes but who have been resident in the UK for UK tax purposes for at least seven of the nine previous UK tax years. It is proposed that any such UK holder will generally be liable to UK capital gains tax (a) if that UK holder has elected in relation to a tax year for that UK holder's non-UK source income and gains to be taxed in the UK in that tax year only on a remittance basis and proceeds of the disposal or any money or other property referable to such proceeds are remitted, or treated as remitted, to the UK during any such tax year (it is proposed that such an election would require the UK holder to pay a minimum amount of £30,000 in tax to HMRC, credit in respect of which may be available against non-UK taxes), and (b) for the tax year in which the disposal occurs if that UK holder has not elected in relation to that tax year for that UK holder's non-UK source income and gains to be taxed in the UK only on a remittance basis. The UK capital gains tax annual exempt amount may not be available to UK holders who are or elect to be subject to UK tax on non-UK source income and gains only on a remittance basis.

**The legislation implementing the announcements referred to in the preceding paragraph has not been finalized or enacted as at the date of this Prospectus. Accordingly, the statements in the preceding paragraph may not represent an accurate summary of the UK tax law which is enacted and/or of future HMRC practice with regard to such UK tax law. UK holders, in particular those who are individuals not domiciled in the UK, should consult their own professional tax advisers as to the impact on their own particular circumstances of the proposals referred to in the previous paragraph.**

A UK holder who is an individual who ceases to be resident or ordinarily resident in the UK for UK tax purposes for a period of less than five years (this period may be shorter if certain tax treaties apply) and who disposes of Shares or GDRs during that period may also be liable on returning to the UK for UK capital gains tax despite being neither resident nor ordinarily resident in the UK for UK tax purposes at the time of the disposal. Such an individual may also be within the charge to non-UK taxation on any gain realized on the disposal. Such non-UK tax may be allowable as a deduction in the computation of the gain realized on the disposal such for UK capital gains tax purposes.

### *Corporate UK holders*

Corporate UK holders will generally be subject to UK corporation tax on any chargeable gain arising from a disposal of the Shares or the GDRs, subject to any available reliefs or exemptions.

### **UK *ad valorem* stamp duty and stamp duty reserve tax**

#### *On issue*

No UK *ad valorem* stamp duty and no UK stamp duty reserve tax is payable on the issue of Shares or GDRs.

#### *On transfer*

Assuming that any document effecting a transfer of, or containing an agreement to transfer, Shares or GDRs is neither (i) executed in the UK nor (ii) relates to any property situated, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), no UK *ad valorem* stamp duty should be payable on such a document.

Even if a document effecting a transfer of, or containing an agreement to transfer, Shares or GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK *ad valorem* stamp duty on such a document unless the document is required for any purposes in the UK. If it is necessary to pay UK *ad valorem* stamp duty, it may also be necessary to pay interest and penalties.

No UK *ad valorem* stamp duty is payable in respect of a transfer of GDRs effected in electronic book-entry form in accordance with the procedures of Euroclear, Clearstream or DTC and not by written instrument of transfer.

No UK stamp duty reserve tax is payable in respect of an agreement to transfer Shares or GDRs.

## **Russian Tax Considerations**

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the Shares and the GDRs and to the purchase, ownership and disposition of the Shares and the GDRs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect as of the date of this Prospectus. The discussion with respect to Russian legislation is based on our understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations.

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. You should consult your own professional advisors regarding the tax consequences of investing in the Shares and GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDRs are characterized by uncertainties and by an absence of special provisions with respect to transactions with GDRs. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “Russian resident holder” means (i) an individual holder of the Shares and GDRs, actually present in the Russian Federation for 183 days or more in 12 consecutive months or (ii) an organization, in each case organized under Russian law, or (iii) an organization, in each case organized under a foreign law, that holds and disposes of the Shares and GDRs through its permanent establishment in Russia. Individual presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education.

For the purposes of this summary, a “non-resident holder” is a holder of the Shares or GDRs which is not qualified to be a Russian resident holder defined in the previous paragraph.

### ***Taxation of Acquisition of the Shares and GDRs***

No Russian tax implications should arise for holders of the Shares and GDRs, Russian resident holders as well as non-resident holders, upon purchase of the Shares and GDRs. However, under the certain conditions the taxable material gain may arise for individuals if the Shares and GDRs are purchased at the price below the deemed market value.

### ***Taxation of Dividends***

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

#### ***Russian Resident Holders***

- Shares

Dividends paid to a Russian resident holder of the Shares that is a Russian organization or an individual will be generally subject to Russian withholding tax at the rate of 9%. Dividends received by Russian organizations are subject to withholding tax at the rate of 0% providing the following conditions have been met: (i) either the recipient organization owns at least 50% of participation shares in the share capital of the paying organization or share depository receipts qualifying for dividends equal to at least 50% of the total amount of dividends paid by the organization, and (ii) the acquisition cost of participation or depository receipts is not less than 500 million Roubles (approximately euro 13.8 million). However it is difficult to predict how the Russian tax authorities may interpret the conditions above listed. Therefore, there can be no assurance that the 0% withholding tax rate will apply.

The effective rate of this tax may be lower than 9% owing to the fact that generally we should calculate this tax by multiplying the basic tax rate (9%) by the difference between (i) the dividends to be distributed

by us to our shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by us in the current and preceding tax periods from other Russian persons (except for dividends which are taxable at the rate of 0% under the current Russian tax law).

According to clarifications issued by the Russian tax authorities, it may be possible to claim that the 9% withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign organization, based on non-discrimination provisions of a double tax treaty between Russia and the country of tax residency of the respective foreign organization. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that the claims for application of the 9% tax rate would not be challenged by the Russian tax authorities, hence it is likely that 15% withholding tax rate would be applied by us.

- GDRs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDRs primarily because the taxation of dividends payable under GDRs is not specifically addressed in Russian tax law. In the absence of any official interpretative guidance and as the depositary (and not the holders of the GDRs) is the legal holder of ordinary shares under Russian law, we will likely withhold tax at a domestic rate of 15% applicable to dividends payable to non-resident holders (as described below). Upon receiving dividends Russian holders which are organizations may be required to pay additional Russian profits tax at the rate of 9% (the rate applied to dividends received from non-residents) or 24% (if the income received will not be recognized as dividends) while Russian holders who are individuals—personal income tax at the rate of 9% or 13% (the higher rate applies if the income received will not be recognized as dividends for Russian tax purposes). There is also no established procedure providing for the refund of tax withheld from dividends payable through the Depositary to Russian resident holders of GDRs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

#### *Non-Resident Holders*

- Shares

Dividends paid to a non-resident holder of Shares will generally be subject to Russian withholding tax, which we will withhold. The applicable tax rate on dividends will depend on whether the dividend recipient is an organization or an individual. Under Russian domestic law dividends paid to a non-resident holder, which is an organization or individual will be subject to Russian withholding tax at a rate of 15%. Withholding tax on dividends may be generally reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of a non-resident holder of the shares.

- GDRs

Comments provided in the previous section (see “—*Taxation of Dividends—Non Resident Holders—Shares*”) are also applicable to GDRs. Notwithstanding the foregoing, treaty relief for dividends received may not be available to non-resident holders of GDRs. In 2005 and 2006, the Ministry of Finance of the Russian Federation repeatedly expressed an opinion that depositary receipt holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that tax residencies of the depositary receipt holders are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to taxation of dividends attributable to GDR holders it is unclear how the Russian tax authorities and courts would ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all GDR holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each particular holder.

Although non-resident holders of GDRs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time-consuming and no assurance can be given that the Russian tax authorities will grant refund. See “—*Tax Treaty Procedures*” below.

With respect to individuals who are non-resident holders of GDRs, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depositary. We will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favor of individuals, as documentation is to be first provided

to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident holders of GDRs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the respective international double tax treaties, provided that the procedures described in “—*Tax Treaty Procedures*” are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15% tax withheld from payment of dividends to the Depositary, as the tax authorities are unlikely to treat the 15% withholding tax as a tax liability of individual holders. Therefore, it is possible that non-resident holders may be subject to up to a 45% effective tax on dividends accrued on shares held on deposit, i.e. 15% income tax withheld by us plus 30% Russian personal income tax payable on the self-assessed basis.

### ***Taxation of Capital Gains***

The following sections summarize the taxation of capital gains in respect of the disposition of the Shares and GDRs.

#### ***Russian Resident Holders***

As the Russian legislation related to taxation of capital gains derived by Russian resident holders (including organizations and individuals) in connection with GDRs is not entirely clear, we urge Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of GDRs.

##### **Organizations**

Capital gains arising from the sale of the Shares and GDRs by a Russian resident holder that is an organization will be taxable at the regular Russian corporate income tax rate of 24%. Russian tax legislation contains a requirement that a profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted for separately from a profit from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident holders may be able to apply losses arising in respect of the listed Shares and the GDRs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange and, in respect of the non-listed GDRs, from the sale, exchange or other disposition of securities not quoted on a stock exchange. Special tax rules apply to Russian organizations that hold a broker and/ or dealer license.

The Russian Tax Code also establishes special rules for calculation of the tax base for the purposes of transactions with securities.

##### **Individuals**

Capital gains arising from the sale, exchange or other disposition of the Shares and GDRs by individuals who are Russian resident holders must be declared on the holder’s tax return and are subject to personal income tax at a rate of 13%.

The income in respect of sale of the Shares or the GDRs by an individual is calculated as sale proceeds less documentary confirmed expenses related to purchase of these securities (including cost of securities and expenses associated with purchase, keeping and sale of these securities).

Under Russian law, the acquisition value can be deducted at the source of payment if the sale was made by a holder through a professional trustee, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. This professional trustee, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the individual and tax withheld upon the sale of the Shares and GDRs not later than on April 1 of the year following the reporting year.

#### ***Non-Resident Holders***

##### **Organizations**

Capital gains arising from the sale, exchange or other disposition of the Shares and GDRs by organizations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of

immovable property located in Russia, organizations that are non-resident holders of the Shares and GDRs should be subject (except as described below) to a 20% withholding tax on the gross proceeds from sale, exchange or other disposition of the Shares and GDRs or 24% withholding tax on the difference between the sales, exchange or other disposition price and the acquisition costs of the Shares and GDRs.

However, it should be noted that the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia will not constitute more than 50% of the Company's assets as at the date of the sale of Shares and GDRs by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in the case in question.

Where the Shares and GDRs are sold by organizations to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

#### Individuals

The taxation of the income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of the Shares and GDRs outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However the Russian tax law gives no clear indication as to how the place of sale of the Shares and GDRs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the Shares and the GDRs by non-resident holders in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the difference between the sales price and the acquisition value of such Shares and GDRs as well as other documented expenses, such as depositary expenses and broker fees, among others. Under Russian law, the acquisition value can only be deducted at the source of payment if the sale was made by a non-resident holder through a professional trust manager, dealer or broker that is a Russian organization or a foreign company with a permanent establishment in Russia. Such professional trust manager, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realized by the non-resident individual and tax withheld upon the sale of the Shares and GDRs not later than on April 1 of the year following the reporting year.

Otherwise, if the sale is made to other organizations and individuals, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses (which includes filing of support documentation).

Although Russian tax law imposes this responsibility only on professional trust manager, brokers or dealers, in practice, the tax authorities may require Russian organizations or foreign companies with a permanent establishment in Russia that are not professional trust manager, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

In some circumstances, a non-resident holder may be exempt from Russian personal income tax on the sale, exchange or other disposition of the Shares and GDRs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. Under the United States- Russia Tax Treaty, capital gains from the sale of the Shares and/or GDRs by US holders should be relieved from taxation in Russia, unless 50% or more of our assets (as the term "fixed assets" is used in the Russian version of the United States-Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are US holders may seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the Shares and/or GDRs. The UK—Russia Treaty provides for an exemption from personal income tax on capital gains received by UK holders unless the gains relate to shares that both (a) derive their value or the greater part of their value directly or indirectly from immovable property in Russia and (b) are not quoted on a registered stock exchange. Therefore, individuals who are UK holders may also apply the provisions of the UK—Russia Tax Treaty as it exempts from Russian taxation any gain on the disposition of the Shares and GDRs quoted on a registered stock exchange.



In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See “—*Tax Treaty Procedures*” below.

### ***Tax Treaty Procedures***

The Russian Tax Code does not contain a requirement that a non-resident holder that is an organization must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident organization seeking to obtain relief from Russian withholding tax under a tax treaty must provide to a tax agent (i.e. the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income.

In accordance with the Russian Tax Code, a non-resident holder who is an individual must present to the tax authorities a document confirming his residency in the home country and also other supporting documentation including a statement confirming the income received and the tax paid offshore, confirmed by the foreign tax authorities. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end a non-resident holder which is an individual may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received.

If a non-resident holder that is an organization does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above and recommended for application). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to GDRs, because Russian tax law does not specifically address taxation and tax treaty procedures for dividends payable under GDRs. Thus, no assurance can be given that we will be able to apply the respective double tax treaties when paying dividends to non-resident holders.

### ***Stamp Duties***

No Russian stamp duty will be payable by the holders of Shares and GDRs upon carrying out of transactions with the Shares and GDRs as discussed in the Taxation section of this Prospectus (i.e. on a purchase of the Shares and GDRs, sale of the Shares and GDRs, etc.)

## PLAN OF DISTRIBUTION

The Global Offering consists of (i) an offering of GDRs and Shares in the United States to certain QIBs in reliance on Rule 144A, or another transaction exempt from, or not subject to, the registration requirements of the Securities Act; (ii) an offering of GDRs and Shares to institutional investors outside the United States and the Russian Federation in reliance on Regulation S; and (iii) an offering of Shares in the Russian Federation including through a Russian licensed broker in reliance on Regulation S.

We, the Selling Shareholder and the Managers have entered into an underwriting agreement dated April 16, 2008 (the “**Underwriting Agreement**”) with respect to the Shares and the GDRs being offered in the Global Offering. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each of the Managers has agreed, severally but not jointly, to purchase such number of Shares as are set forth opposite its name in the following table:

<u>Managers</u>	<u>Number of Shares (in the form of Shares and GDRs)</u>
Deutsche Bank AG, London Branch	4,859,819
Morgan Stanley & Co. International plc	4,859,819
<b>Total</b>	<b>9,719,638</b>

The GDRs will be represented by a Master Rule 144A GDR and a Master Regulation S GDR and will be subject to certain restrictions as further discussed in “*Terms and Conditions of the GDRs.*”

The offer price is US\$42.50 per Share and US\$8.50 per GDR. The Managers will receive total fees and commissions of approximately US\$9.8 million (assuming full exercise of the Over-allotment Option). In addition, at the sole discretion of the Company, the Managers may be entitled to an additional incentive fee of approximately US\$2.4 million.

We have also agreed to reimburse the Managers for certain of their expenses in connection with the Global Offering. Including these amounts, our estimated expenses in relation to the Global Offering, other than fees and commissions of the Managers, are approximately US\$6.3 million.

In the Underwriting Agreement, we and the Selling Shareholder have made certain customary representations and warranties, including with respect to our business, the Shares and the GDRs and the contents of this Prospectus and, in the case of the Selling Shareholder, in relation to its title to the Shares it is selling in the Global Offering and with respect to the use of proceeds therefrom. We and the Selling Shareholder have also agreed to provide indemnification to the several Managers against certain liabilities, including liability under the Securities Act.

The Managers are offering the Shares and the GDRs when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares and other conditions contained in the Underwriting Agreement, such as the receipt by the Managers of officers’ certificates and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the London Stock Exchange or certain other stock exchanges or a material adverse change in our financial condition or business, and on certain other conditions, the Managers have the right, collectively but not individually, to withdraw from the Global Offering before delivery of Shares or GDRs and to terminate the Underwriting Agreement.

### **Over-allotment Option**

The Selling Shareholder has granted the Managers an Over-allotment Option, exercisable within 15 days after the announcement of the offer price, to purchase up to an additional 2,532,930 GDRs at the offer price per GDR, solely to cover over-allotments.

The Managers may also sell GDRs in excess of the Over-allotment Option up to a maximum of 5% of the total number of GDRs being offered, creating a market short position. The Managers must close out any such market position by purchasing Ordinary Shares or GDRs in the open market.

### **Open Subscription**

The New Shares are being offered in the Russian Federation pursuant to an open subscription, commencing on the date to be chosen by our general director (chief executive officer), as set forth in the

Issue Documents. The open subscription will conclude on the earlier of (i) the date of placement of the last share in the open subscription and (ii) May 12, 2008. Following the completion of the open subscription the Company will file a placement notification with the FSFM. Prior to the filing of such placement notification, the New Shares may not be transferred and will not be traded on RTS, MICEX or any other stock exchange.

Application will be made to list the New Shares on RTS and for admission of the New Shares to trading on MICEX. The New Shares are expected to be traded on RTS under the symbol “MGNT” and on MICEX under the temporary symbol “MGNT-004D”, following admission to trade within the first three months after the filing of the Placement Notice with the FSFM, following which the New Shares are expected to be traded on MICEX under the symbol “MGNT”.

### **Pre-emptive Rights**

In connection with the Global Offering, the Company’s shareholders of record as of February 12, 2008 have a statutory right to subscribe for newly issued Ordinary Shares *pro rata* to their existing shareholding as of such date. Shareholders holding pre-emptive rights must notify the Company of their intention to exercise their pre-emptive rights, whether in whole or in part, over a period of 20 days commencing on March 23, 2008, and must pay for any New Shares at the offer price per Share not later than May 7, 2008. The Company has received applications from existing shareholders for the exercise by them of their pre-emptive rights with respect to 6,234,140 New Shares, including from the Selling Shareholder with respect to 592,490 New Shares and from Mr. Sergey Galitskiy with respect to 4,350,474 New Shares. Any New Shares not subscribed for by the Company’s shareholders in the exercise of their pre-emptive right may be offered to other investors in the Global Offering. Any New Shares subscribed for but not paid for in full by the existing shareholders in the exercise of their pre-emptive right will be cancelled. See “*Description of Share Capital and Applicable Russian Legislation—Pre-emptive Rights.*”

### **Lock-up Arrangements**

We, the Selling Shareholder and all of our directors and senior managers that own Ordinary Shares have agreed not to issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Shares; or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of shares or such other securities, in cash or otherwise from the date hereof until 180 days after the Share Closing Date, subject to certain limited exceptions, without the prior written consent of the Managers. The foregoing undertaking shall not apply to the offer and sale of the Shares or GDRs in connection with the Global Offering and the Share Issue.

### **Stabilization**

In connection with the Global Offering, Morgan Stanley & Co. International plc (or any agent or other person acting for Morgan Stanley & Co. International plc, as stabilizing manager), may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilize, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. Such transactions may commence on or after the announcement of the offer price and will end no later than 15 days thereafter. Such transactions may be effected on the London Stock Exchange and any other securities market, over the counter market, stock exchange or otherwise. There is no assurance that such transactions will be undertaken and, except as required by law, Morgan Stanley & Co. International plc does not intend to disclose the extent of allotments and/or stabilization transactions in connection with the Global Offering.

**Other Relationships**

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for us and/or the Selling Shareholder and their respective affiliates, for which they received customary fees, and they and their respective affiliates may provide such services for us and the Selling Shareholder and their respective affiliates in the future.

In December 2007, we entered into two loan arrangements with Deutsche Bank, an entity affiliated with Deutsche Bank AG, involving the issuance of promissory notes: (i) an agreement in connection with an issuance of RUB 607.0 million promissory notes in exchange for a RUB 575.2 million loan, to be repaid on June 18, 2008; and (ii) an agreement in connection with an issuance of RUB 427.1 million promissory notes in exchange for a RUB 404.8 million loan, to be repaid on June 21, 2008.

## TRANSFER AND SELLING RESTRICTIONS

### Transfer Restrictions

#### *Rule 144A GDRs and Shares*

Each purchaser of Rule 144A GDRs in the Global Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Rule 144A GDRs or Shares has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs or Shares for its own account or for the account of a QIB.
- The purchaser is aware that the Rule 144A Shares and GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act.
- If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs or the Shares represented thereby, such Rule 144A GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF OPEN JOINT STOCK COMPANY MAGNIT (THE “**COMPANY**”) REPRESENTED HEREBY (THE “**SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, THE HOLDER HEREOF BY PURCHASING THIS GLOBAL DEPOSITARY RECEIPT AGREES FOR THE BENEFIT OF THE COMPANY THAT THE GLOBAL DEPOSITARY RECEIPTS AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“**QIB**”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (B) ABOVE, THE TRANSFEROR SHALL PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR DEPOSIT IN THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) THEREUNDER. THE HOLDER OF THE GLOBAL DEPOSITARY RECEIPTS WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GLOBAL DEPOSITARY RECEIPTS OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “**RESTRICTED SECURITIES**” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

- Notwithstanding anything to the contrary in the foregoing, Rule 144A Shares and the Shares represented by the Rule 144A GDRs may not be deposited into any depositary receipt facility with respect to the Shares established or maintained by a depositary bank (including any such facility maintained by the Depositary for the Rule 144A GDRs), other than a Rule 144A restricted depositary receipt facility, so long as such Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.
- Prospective purchasers are hereby notified that sellers of the Rule 144A GDRs and Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

### ***Regulation S GDRs***

Each purchaser of Regulation S GDRs and Shares in the Global Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- The purchaser (i) is outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not in the business of buying or selling securities or, if it is in such business, it did not acquire the Regulation S Shares or GDRs or the Shares represented thereby from the Company or an affiliate thereof in the initial distribution of Regulation S GDRs or Shares.
- The purchaser is aware that the Regulation S Shares or GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.
- The purchaser will not offer, resell, pledge or otherwise transfer such Regulation S GDRs or Shares, except in accordance with the Securities Act and all applicable securities laws of each relevant state or other jurisdiction of the United States.
- If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Regulation S GDRs or the Shares represented thereby, such Regulation S GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Regulation S GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF OPEN JOINT STOCK COMPANY MAGNIT (THE “**COMPANY**”) REPRESENTED HEREBY (THE “**SHARES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

### ***Selling Restrictions***

The distribution of this Prospectus and the offer of the Shares and the GDRs in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

### ***General***

No action has been or will be taken in any jurisdiction, other than the Russian Federation in respect of the Shares only, that would permit a public offering of the Shares or the GDRs, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares and the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Shares or the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer of the Shares or the GDRs, including those in the paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the Shares or the GDRs offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### *United States*

The Shares and the GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. The Underwriting Agreement provides that the Managers may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of Shares and GDRs within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of this offering, an offer or sale of the Shares or the GDRs within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

### *Public Offer Selling Restriction under the Prospectus Directive*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), an offer to the public of any Shares or GDRs which are the subject of the Global Offering may not be made in that Relevant Member State other than the offer of GDRs contemplated by this Prospectus in the United Kingdom after this Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive as implemented in that Relevant Member State. Notwithstanding the foregoing, an offer to the public in that Relevant Member State of any Shares or GDRs may also be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal persons which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Managers for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares or GDRs shall result in a requirement for the publication by us, the Selling Shareholder, or the Managers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer to the public**” in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares or GDRs to be offered so as to enable an investor to decide to purchase or subscribe for any Shares or GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

### *Selling Restrictions Addressing Additional United Kingdom Securities Laws*

The Company, the Selling Shareholder and the Managers have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by them in connection with the issue or sale of any Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to us; and they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

### ***Russian Federation***

Each of the Managers has agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of its initial distribution or at any time thereafter any GDRs to or for the benefit of any person (including legal persons) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except to the extent permitted under Russian law.

### **Japan**

No registration pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (the “FIEL”) has been made or will be made with respect to the solicitation of an offer to acquire the Shares or of the GDRs, as the case may be, to any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) on the ground that one of the private placement exemptions from such registration requirement is applicable as provided in Article 2, Paragraph 3, Item 2-(ii)(ro) of the FIEL.

The Company is not subject to periodic reporting requirements under Article 24 of the FIEL. The holders of the Shares or of the GDRs, as the case may be, who at the time of the acquisition of such securities represented their status as qualified institutional investors (“QIIs”) as defined in the FIEL are not permitted to transfer such securities to any Japanese resident unless the transferee is another QII. The holders of the GDRs may not divide any of the GDRs into pieces for further transfer to Japanese residents.

### **Kingdom of Bahrain**

The Managers, Company and Selling Shareholder have represented, warranted and undertaken that they have not and will not make this offer available to the public in the Kingdom of Bahrain. This Prospectus has not been reviewed by the Central Bank of Bahrain (the “CBB”) and the CBB takes no responsibility for the accuracy of the statements or the information contained in this Prospectus or for the performance of the securities or related investment, nor shall the CBB have any liability to any person for damage or loss resulting from reliance on any statement or information contained herein.

### **Dubai International Financial Center**

By receiving this Prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that the Shares and the GDRs have not been and will not be offered, sold or publicly promoted or advertised in the Dubai International Financial Center other than in compliance with laws applicable in the Dubai International Financial Center, governing the issue, offering or sale of securities.

To the extent this Prospectus is distributed in the Dubai International Financial Center, if at all, this statement relates to an “exempt offer” in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This statement is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document you should consult an authorized financial adviser. For the avoidance of doubt, interests in the Shares or the GDRs are not interests in a “fund” or “collective investment scheme” within the meaning of either the Collective Investment Law (DIFC Law No. 1 of 2006) or the Collective Investment Rules Module of the Dubai Financial Services Authority Rulebook.

### **United Arab Emirates (Excluding the Dubai International Financial Center)**

This Prospectus is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose.

By receiving this Prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that this Prospectus has not been approved by the UAE Central Bank, the UAE Ministry of Economy or any other authorities in the United Arab Emirates, nor has the placement agent, if any,



received authorization or licensing from the UAE Central Bank, the UAE Ministry of Economy or any other authorities in the United Arab Emirates to market or sell securities within the United Arab Emirates. No marketing of any financial products or services has been or will be made from within the United Arab Emirates and no subscription to any securities, products or financial services may or will be consummated within the United Arab Emirates. It should not be assumed that the placement agent, if any, is a licensed broker, dealer or investment advisor under the laws applicable in the United Arab Emirates, or that it advises individuals resident in the United Arab Emirates as to the appropriateness of investing in or purchasing or selling securities or other financial products. Interests in the Shares or the GDRs may not be offered or sold directly or indirectly to the public in the United Arab Emirates. This does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

## CLEARING AND SETTLEMENT

Custodial and depository links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and the cross-market transfers of the GDRs associated with secondary market trading.

### The Clearing Systems

#### *Euroclear and Clearstream*

Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are worldwide financial institutions including underwriters, securities brokers and dealers, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

No beneficial owner of an interest in a GDR will be able to transfer that interest except in accordance with applicable procedures, in addition to those provided for under the Deposit Agreement.

The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to transfer beneficial interests in the GDRs.

#### *DTC*

DTC is a limited-purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants’ accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depository through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See “*Taxation—US Federal Income Tax Considerations.*”

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

### Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR registered in the name of BNP Paribas as common depository for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depository as custodian for DTC. As necessary, the Depository will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream are credited to Euroclear or Clearstream as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable with respect to the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

### **Settlement and Delivery of the Shares**

Each purchaser of the Shares in the Global Offering is required to pay for such Shares in US Dollars or Roubles in same day funds prior to delivery of such Shares to the purchasers, which is expected to commence on or about April 21, 2008. In order to take delivery of the Shares, an investor should have either a direct account with our share registrar, OJSC “United Registration Company”, or a deposit account with DCC or NDC or any other depositary that has an account with DCC or NDC. Investors may at their own expense choose to hold the Shares through a direct account with our share registrar or through a deposit account with a Russian-licensed depositary other than NDC or DCC, although the Shares held in each such way will be ineligible for trading on MICEX and RTS.

### **Global Clearance and Settlement Procedures**

#### ***Initial Settlement***

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

#### ***Secondary Market Trading***

For a description of the transfer restrictions relating to the Shares and the GDRs, see “*Transfer and Selling Restrictions.*”

#### ***Trading between Euroclear and Clearstream participants***

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream and will be settled using the normal procedures applicable to depositary receipts.

#### ***Trading between DTC participants***

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US Dollars, or free of payment, if payment is not effected in US Dollars. Where payment is not effected in US Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

*Transfer of Interests in Rule 144A GDRs Represented by the Master Rule 144A GDR Certificate to, or for the Account of, a Person Wishing to Take Delivery thereof in the Form of Interests in Regulation S GDRs Represented by Master Regulation S GDR Certificate.*

Interests in Rule 144A GDRs represented by the Master Rule 144A GDR Certificate may be transferred to, or for the account of, a person wishing to take delivery thereof in the form of interests in Regulation S GDRs represented by the Master Regulation S GDR Certificate only if (i) the owner of such Rule 144A GDRs withdraws the Ordinary Shares represented by Rule 144A GDRs and other deposited property attributable to the deposited Ordinary Shares from the separate account created on the books and records of the Custodian in the name of the Depository in which the Ordinary Shares represented by Rule 144A GDRs and other deposited property attributable to the deposited Ordinary Shares are deposited and delivers to the Depository the duly executed and completed written certificate set out in Schedule 4 Part B of the Deposit Agreement by or on behalf of the beneficial owner of the Ordinary Shares represented by Rule 144A GDRs and other deposited property attributable to the deposited Ordinary Shares to be withdrawn, (ii) the relevant DTC, Euroclear or Clearstream participant instructs DTC, Euroclear or Clearstream, Luxembourg, as the case may be, to execute such transfer and (iii) such owner causes the Depository to deliver the Ordinary Shares represented by Rule 144A GDRs and other deposited property attributable to the deposited Ordinary Shares so withdrawn to the account of the Custodian for deposit into the separate account created on the books and records of the Custodian in the name of the Depository in which the Ordinary Shares represented by Regulation S GDRs and other deposited property attributable to the deposited Ordinary Shares are deposited, for issuance of Regulation S GDRs to, or for the account of, the transferee. Issuance of such Regulation S GDRs will be subject to the terms and conditions of the Deposit Agreement and the Terms and Conditions of the GDRs, including payment of the fees, charges and taxes provided herein and, with respect to the deposit of Ordinary Shares and the issuance of Regulation S GDRs, delivery of the duly executed and completed written certificate and agreement set out in Schedule 3 Part A to the Deposit Agreement, by or on behalf of each person who will be the beneficial owner of such Regulation S GDRs, agreeing that such person will comply with the restrictions on transfer set forth in Deposit Agreement and the Terms and Conditions of the GDRs and to payment of the fees, charges and taxes provided herein.

#### **General**

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Managers, the Depository, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

### **INFORMATION RELATING TO THE DEPOSITARY**

The Depositary is JPMorgan Chase Bank, National Association, a national banking association, organized under the laws of the United States and with its main office in Columbus, Ohio, United States of America. JPMorgan Chase Bank, National Association is the principal banking subsidiary of JPMorgan Chase & Co. The Depositary was organized as a national banking association under the National Bank Act on 13 November 2004. Previously, it had been a banking corporation incorporated under the Banking Law of New York. The Depositary is subject to the regulation of, and supervision by, the Office of the Comptroller of the Currency. The registered office of the Depositary is located at 1111 Polaris Parkway, Columbus, Ohio, United States of America. A copy of JPMorgan Chase & Co.'s by-laws, as amended, together with copies of the most recent consolidated reports of condition and income-FFIEC 031 (call reports) will be available for inspection at the Office of the Secretary, JPMorgan Chase & Co., located at 270 Park Avenue, New York, New York 10017, United States of America.

## COMPANY'S STOCK TRADING HISTORY

### History of the Trading of Our Ordinary Shares on MICEX

The following tables set forth, for the periods indicated, the high and low market close prices and average daily trading volumes of our Ordinary Shares on MICEX.

Year Ended	Price Per Ordinary Share in Roubles		Average Daily Trading Volume Ordinary Share
	High	Low	
December 31, 2006	1,000.0	545.0	1,750
December 31, 2007	1,270.5	910.2	18,686

Source: Bloomberg, investfunds.ru

Quarter	Price Per Ordinary Share in Roubles		Average Daily Trading Volume Ordinary Share
	High	Low	
Q2 April – June 2006	730.0	545.0	1,487
Q3 July – September 2006	1,000.0	642.0	693
Q4 October – December 2006	990.0	862.7	2,818
Q1 January – March 2007	1,130.3	910.2	4,245
Q2 April – June 2007	1,228.9	1,035.0	6,148
Q3 July – September 2007	1,217.7	1,030.0	19,676
Q4 October – December 2007	1,270.5	1,042.5	42,687
Q1 January – March 2008	1,368.7	1,121.0	29,072

Source: Bloomberg, investfunds.ru

Month Ended	Price Per Ordinary Share in Roubles		Average Daily Trading Volume Ordinary Share
	High	Low	
November 30, 2007	1,187.9	1,124.7	28,198
December 31, 2007	1,270.5	1,130.6	19,371
January 31, 2008	1,368.7	1,141.9	41,432
February 29, 2008	1,236.0	1,121.0	28,182
March 31, 2008	1,219.7	1,121.2	19,501

Source: Bloomberg, investfunds.ru

There have been no trading suspensions with respect to our Ordinary Shares since trading commenced on MICEX in April 2006.

### History of the Trading of Our Ordinary Shares on RTS

The following tables set forth, for the periods indicated, the high and low market close prices and average daily trading volumes of our Ordinary Shares on RTS.

Year Ended	Price Per Ordinary Share in Roubles		Average Daily Trading Volume Ordinary Share
	High	Low	
December 31, 2006	939.8	545.1	8,209
December 31, 2007	1,234.9	930.0	7,036

Source: Bloomberg, investfunds.ru

<b>Quarter</b>	<b>Price Per Ordinary Share in Roubles</b>		<b>Average Daily Trading Volume</b>
	<b>High</b>	<b>Low</b>	<b>Ordinary Share</b>
Q2 April – June 2006	760.9	545.1	15,618
Q3 July – September 2006	906.9	645.4	5,072
Q4 October – December 2006	939.8	868.9	5,280
Q1 January – March 2007	1,128.4	930.0	8,223
Q2 April – June 2007	1,223.8	1,032.5	5,520
Q3 July – September 2007	1,211.2	1,019.9	6,633
Q4 October – December 2007	1,234.9	1,042.8	7,651
Q1 January – March 2008	1,373.6	1,114.1	7,185

Source: Bloomberg, investfunds.ru

<b>Month Ended</b>	<b>Price Per Ordinary Share in Roubles</b>		<b>Average Daily Trading Volume</b>
	<b>High</b>	<b>Low</b>	<b>Ordinary Share</b>
November 30, 2007	1,186.0	1,131.0	4,633
December 31, 2007	1,234.9	1,128.2	5,039
January 31, 2008	1,373.6	1,120.0	11,343
February 29, 2008	1,234.6	1,119.5	4,662
March 31, 2008	1,219.8	1,114.1	5,549

Source: Bloomberg, investfunds.ru

There have been no trading suspensions with respect to our ordinary shares since trading commenced on RTS in April 2006.

## **LEGAL MATTERS**

Certain legal matters with respect to the Global Offering will be passed upon for us by Clifford Chance LLP, our English and United States counsel, and by Clifford Chance CIS Limited, our Russian counsel. Certain legal matters with respect to the Global Offering will be passed upon for the Managers by Skadden, Arps, Slate, Meagher & Flom (UK) LLP, London, England and Skadden, Arps, Slate, Meagher & Flom LLP, Moscow, Russian Federation. Certain legal matters with respect to the Global Offering will be passed upon for the Selling Shareholder by Andreas Neocleous & Co., its Cypriot counsel.



## AUDITORS

Our Consolidated Financial Statements as of and for the years ended December 31, 2005, 2006 and 2007, included in this Prospectus, have been audited by ZAO Deloitte & Touche CIS, independent auditors.

ZAO Deloitte & Touche CIS has given and not withdrawn its written consent to the inclusion of its auditors' report dated March 14, 2008 in the form and context in which it is included in this Prospectus. In relation to the listing of the GDRs on the Official List of the UK Listing Authority, ZAO Deloitte & Touche CIS has also authorized the contents of its auditors' report referred to above for the purposes of Prospectus Rule 5.5.4R(2)(f). For the purposes of Prospectus Rule 5.5.4R(2)(f), ZAO Deloitte & Touche CIS has also stated that it is responsible for the auditors' report referred to above as part of the Prospectus and has declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex X item 1.2 of Commission Regulation (EC) 809/2004.

A written consent under the Prospectus Rules is different from a consent filed with the US Securities and Exchange Commission under Section 7 of the US Securities Act. As the GDRs have not and will not be registered under the US Securities Act, a consent has not been filed under Section 7 of the US Securities Act.

## GENERAL INFORMATION

### 1. The Global Offering

- 1.1 It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about April 21, 2008. Application has been made for the GDRs to be traded on the London Stock Exchange's Main Market. Prior to admission to the Official List, conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- 1.2 The issue of the New Shares was authorized by the Board of Directors of the Company held on February 12, 2008, and the issuance of the New Shares was registered with the FSFM on March 20, 2008. The sale of the Shares was authorized by the directors of the Selling Shareholder on March 15, 2008.

### 2. Significant Change

Save as disclosed below, there has been no significant change in the financial or trading position of the Group since December 31, 2007, the date of our latest accounts.

Between December 31, 2007 and March 31, 2008, the Group opened two hypermarkets (increasing the total number of hypermarkets to five) and added 39 convenience stores (increasing the total number of convenience stores to 2,233) to its chain of stores.

On March 18, 2008, our subsidiary Tander entered into a RUB 1,000 million revolving credit line agreement with BSGV. Drawdowns under this facility may be made for a term not exceeding four months until March 18, 2009. See *“Operating and Financial Review—Liquidity and Capital Resources—Indebtedness—Description of Material Loan Agreements—RUB 1,000 million revolving credit line agreement with BSGV.”*

As of March 31, 2008, the aggregate outstanding amount of short-term loans and bonds increased to US\$565,454 thousand from US\$496,047 thousand as of December 31, 2007. As of the same date, the aggregate outstanding amount of long-term loans and bonds increased to US\$168,513 thousand from US\$160,780 thousand as of December 31, 2007.

### 3. General

- 3.1 The total costs, charges and expenses payable by the Company, including fees and commissions of the Managers, in connection with the Global Offering are estimated to be approximately US\$16.1 million (exclusive of VAT). In addition, at the sole discretion of the Company, the Managers may be entitled to an additional incentive fee of approximately US\$2.4 million (assuming full exercise of the Over-allotment Option).

### 4. Documents for Inspection

- 4.1 Copies of the following documents will be available free of charge for inspection during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the offices of Clifford Chance LLP at 10 Upper Bank Street, E14 5JJ in London, United Kingdom, one year from the date of the Admission:
  - 4.1.1 the Company's Charter, together with an English translation thereof;
  - 4.1.2 the Reports of Independent Auditors and Consolidated Financial Statements of the Company for the three years ended December 31, 2005, 2006 and 2007;
  - 4.1.3 the Deposit Agreement and the Deed Poll; and
  - 4.1.4 this Prospectus.

## **INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005	F-2
REPORT OF INDEPENDENT AUDITOR FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005	F-3
CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 and 2005	
Consolidated income statements	F-5
Consolidated balance sheets	F-6
Consolidated statements of changes in equity	F-7
Consolidated cash flow statements	F-8
Notes to consolidated financial statements	F-10

## OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

### STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

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

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group at December 31, 2007, 2006 and 2005, the results of its operations, changes in equity and cash flows for the years then ended, in compliance with International Financial Reporting Standards (“IFRS”).

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

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

Management is also responsible for:

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

The consolidated financial statements on pages 4-41 for the years ended December 31, 2007, 2006 and 2005 were approved by the Board of Directors of Open Joint Stock Company “Magnit” and authorized to be signed and issued on behalf of the Board on March 14, 2008 by:

  
\_\_\_\_\_  
**Sergey Galitskiy**  
Chief Executive Officer

  
\_\_\_\_\_  
**Alexander Prisyazhnyuk**  
Chief Financial Officer

March 14, 2008  
Moscow, Russia

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Open Joint Stock Company "Magnit":

We have audited the accompanying financial statements of Open Joint Stock Company "Magnit" and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at December 31, 2007, 2006 and 2005 and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated 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.

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

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

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2007, 2006 and 2005 and the results of its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

March 14, 2008

# OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

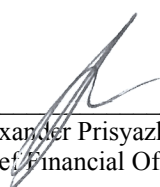
## CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (In thousands of US Dollars)

	Notes	2007	2006	2005
REVENUE	7	3,676,559	2,505,030	1,577,672
COST OF SALES	8	(2,946,515)	(2,047,997)	(1,311,072)
GROSS PROFIT		730,044	457,033	266,600
Selling expenses	9	(29,488)	(19,938)	(14,519)
General and administrative expenses	10	(537,353)	(341,383)	(188,223)
Investment income	11	640	1,322	9
Finance costs	12	(36,101)	(14,356)	(12,881)
Other income		5,005	2,127	901
Other expenses		(2,631)	(3,340)	(1,857)
PROFIT BEFORE TAX		130,116	81,465	50,030
INCOME TAX EXPENSE	13	(32,726)	(23,500)	(12,517)
PROFIT FOR THE YEAR		<u>97,390</u>	<u>57,965</u>	<u>37,513</u>
Attributable to:				
Equity holders of the parent		96,549	57,420	37,513
Minority interest		<u>841</u>	<u>545</u>	<u>-</u>
		<u>97,390</u>	<u>57,965</u>	<u>37,513</u>
EARNINGS PER SHARE	14			
Basic (US Dollars per share)		<u>1.34</u>	<u>0.81</u>	<u>0.58</u>

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

Signed on behalf of the Board:

  
 \_\_\_\_\_  
 Sergey Galitskiy  
 Chief Executive Officer March 14, 2008

  
 \_\_\_\_\_  
 Alexander Prisyazhnyuk  
 Chief Financial Officer March 14, 2008

# OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2007, 2006 AND 2005 (In thousands of US Dollars)

	Notes	2007	2006	2005
<b>ASSETS</b>				
NON-CURRENT ASSETS:				
Property, plant and equipment	15	1,074,248	468,401	160,108
Intangible assets	16	1,103	927	350
Goodwill		-	238	-
Long-term investments		227	322	-
		<u>1,075,578</u>	<u>469,888</u>	<u>160,458</u>
CURRENT ASSETS:				
Merchandise	17	330,409	247,466	151,276
Trade accounts receivable	18	2,415	5,344	738
Advances paid	19	49,423	58,070	21,144
Other receivables	20	25,877	16,648	25,335
Prepaid expenses	21	2,454	830	392
Short-term investments		12,787	2,169	-
Other current assets		118	-	-
Cash and cash equivalents	22	120,959	89,789	45,771
		<u>544,442</u>	<u>420,316</u>	<u>244,656</u>
<b>TOTAL ASSETS</b>		<u><b>1,620,020</b></u>	<u><b>890,204</b></u>	<u><b>405,114</b></u>
<b>EQUITY AND LIABILITIES</b>				
Share capital	23	26	26	23
Share premium	23	179,427	179,427	148
Foreign currency translation reserve		41,103	15,385	(2,409)
Retained earnings		206,405	109,856	52,436
<b>Equity attributable to equity holders of the parent:</b>		<u><b>426,961</b></u>	<u><b>304,694</b></u>	<u><b>50,198</b></u>
Minority interest		1,386	545	-
<b>TOTAL EQUITY</b>		<u><b>428,347</b></u>	<u><b>305,239</b></u>	<u><b>50,198</b></u>
NON-CURRENT LIABILITIES:				
Long-term loans and bonds	24	160,780	82,922	79,351
Long-term obligations under finance leases	25	22,664	6,424	3,466
Deferred tax liabilities	13	15,811	14,714	9,968
		<u>199,255</u>	<u>104,060</u>	<u>92,785</u>
CURRENT LIABILITIES:				
Trade accounts payable	26	437,643	281,401	154,224
Other payables and accrued expenses	27	42,812	28,636	23,333
Income tax payable		2,773	3,733	7,201
Short-term obligations under finance leases	25	13,143	6,716	2,554
Short-term loans	28	496,047	160,419	74,819
		<u>992,418</u>	<u>480,905</u>	<u>262,131</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,620,020</b></u>	<u><b>890,204</b></u>	<u><b>405,114</b></u>

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.



## OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (In thousands of US Dollars)

	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Equity attributable to equity-holders of the parent	Minority interest	Total
<b>Balance at January 1, 2005</b>	<b>23</b>	<b>148</b>	<b>16</b>	<b>14,923</b>	<b>15,110</b>	<b>-</b>	<b>15,110</b>
Profit for the year	-	-	-	37,513	37,513	-	37,513
Currency translation differences	-	-	(2,425)	-	(2,425)	-	(2,425)
<b>Total recognised income and expense</b>	<b>-</b>	<b>-</b>	<b>(2,425)</b>	<b>37,513</b>	<b>35,088</b>	<b>-</b>	<b>35,088</b>
<b>Balance at December 31, 2005</b>	<b>23</b>	<b>148</b>	<b>(2,409)</b>	<b>52,436</b>	<b>50,198</b>	<b>-</b>	<b>50,198</b>
<b>Balance at January 1, 2006</b>	<b>23</b>	<b>148</b>	<b>(2,409)</b>	<b>52,436</b>	<b>50,198</b>	<b>-</b>	<b>50,198</b>
Profit for the year	-	-	-	57,420	57,420	545	57,965
Currency translation differences	-	-	17,794	-	17,794	-	17,794
<b>Total recognised income and expense</b>	<b>-</b>	<b>-</b>	<b>17,794</b>	<b>57,420</b>	<b>75,214</b>	<b>545</b>	<b>75,759</b>
Additional issue of shares (Note 23)	3	179,279	-	-	179,282	-	179,282
<b>Balance at December 31, 2006</b>	<b>26</b>	<b>179,427</b>	<b>15,385</b>	<b>109,856</b>	<b>304,694</b>	<b>545</b>	<b>305,239</b>
<b>Balance at January 1, 2007</b>	<b>26</b>	<b>179,427</b>	<b>15,385</b>	<b>109,856</b>	<b>304,694</b>	<b>545</b>	<b>305,239</b>
Profit for the year	-	-	-	96,549	96,549	841	97,390
Currency translation differences	-	-	25,718	-	25,718	-	25,718
<b>Total recognised income and expense</b>	<b>-</b>	<b>-</b>	<b>25,718</b>	<b>96,549</b>	<b>122,267</b>	<b>841</b>	<b>123,108</b>
<b>Balance at December 31, 2007</b>	<b>26</b>	<b>179,427</b>	<b>41,103</b>	<b>206,405</b>	<b>426,961</b>	<b>1,386</b>	<b>428,347</b>

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (In thousands of US Dollars)

	Notes	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>OPERATING ACTIVITIES:</b>				
Profit before tax		130,116	81,465	50,030
Adjustments for:				
Depreciation		53,102	28,949	15,056
Amortization		564	138	60
Loss/(gain) on disposal of property, plant and equipment		724	463	(108)
Change in provision for doubtful receivables		(913)	736	546
Investment income		(640)	(1,322)	(9)
Finance costs		36,101	14,356	12,881
Operating profit before movements in working capital		<u>219,054</u>	<u>124,785</u>	<u>78,456</u>
Decrease/(increase) in trade accounts receivable		3,842	(5,342)	3,357
Decrease/(increase) in advances paid		8,647	(36,926)	(18,557)
(Increase)/decrease in other receivables		(9,387)	8,687	(3,682)
Decrease/(increase) in taxes receivable		158	(158)	(4,901)
Increase in prepaid expenses		(1,624)	(438)	(392)
Increase in merchandise		(82,943)	(96,190)	(77,686)
Increase in trade accounts payable		156,242	127,177	28,316
Increase in other payables		14,176	5,303	35,643
(Decrease)/increase in taxes payable		(960)	(3,468)	7,667
Cash flows from operations		<u>307,205</u>	<u>123,430</u>	<u>48,221</u>
Income tax paid		(36,359)	(24,581)	(3,161)
Interest paid		<u>(28,491)</u>	<u>(12,866)</u>	<u>(11,436)</u>
Net cash generated from operating activities		<u>242,355</u>	<u>85,983</u>	<u>33,624</u>
<b>INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment		(571,014)	(300,889)	(78,339)
Purchase of intangible assets		(744)	(418)	(304)
Proceeds from disposal of property, plant and equipment		4,333	2,253	1,214
Repayment of long-term loans		-	(312)	-
Purchase of investments		(27,511)	(56,899)	(7,146)
Proceeds from sale of investments		26,238	54,713	5,921
Net cash used in investing activities		<u>(568,698)</u>	<u>(301,552)</u>	<u>(78,654)</u>

## OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

### CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (CONTINUED) (In thousands of US Dollars)

	Notes	2007	2006	2005
<b>FINANCING ACTIVITIES:</b>				
Proceeds from borrowings		1,522,374	599,826	679,311
Repayments of borrowings		(1,153,940)	(510,655)	(597,866)
Payment of bond issue costs		(900)	-	(464)
Repayment of obligations under finance leases		(12,702)	(9,741)	(8,608)
Proceeds from issue of ordinary shares		-	179,282	-
Net cash generated from financing activities		354,832	258,712	72,373
NET INCREASE IN CASH AND CASH EQUIVALENTS		28,489	43,143	27,343
CASH AND CASH EQUIVALENTS, beginning of year		89,789	45,771	19,742
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		2,681	875	(1,314)
CASH AND CASH EQUIVALENTS, end of year	22	120,959	89,789	45,771

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

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### 1. NATURE OF BUSINESS

Close Joint Stock Company Magnit (“Magnit”) was incorporated in Krasnodar, Russian Federation, in November 2003. In 2005, Magnit’s shareholders completed a group reorganization whereby Magnit became the holding company of a group of previously commonly controlled retail entities, CJSC “Tander” and its subsidiaries (“Tander”). For the purposes of these consolidated financial statements, all prior period information has been retrospectively restated as if the reorganization was effective 1 January 2005 (see Note 5 common control transactions).

In January 2006 Magnit changed its legal form to Open Joint Stock Company “Magnit” (the “Company” or OJSC “Magnit”). There was no change in the principal activities or shareholders as a result of the change to an Open Joint Stock Company.

OJSC “Magnit” and its subsidiaries (the “Group”) operate in the retail and distribution of consumer goods under the “Magnit” name. The group operates in the retail and wholesale sectors. However, the volume of wholesale activities has decreased and the Group intends to cease its wholesale operations in the near term.

The principal retail business operations are carried out through Tander. All of the Group’s operational activities are conducted in the Russian Federation. The principal operating office of the Group is situated at 15/2 Solnechnaya St., 350002 Krasnodar, Russian Federation.

The principal activities of the Group’s subsidiaries all of which are incorporated in the Russian Federation, and the effective ownership percentages are as follows:

<b>Company name</b>	<b>Principal Activity</b>	<b>Ownership Interest 2007</b>	<b>Ownership Interest 2006</b>	<b>Ownership Interest 2005</b>
CJSC “Tander”	Food retail and wholesale	100%	100%	100%
LLC “Magnit Finance”	Issuer of the Group’s bonds	100%	100%	100%
LLC “BestTorg”	Food retail in the city of Moscow and the Moscow region	100%	100%	100%
LLC “Tander-Magnit”	Food retail in the Moscow region	100%	100%	100%
LLC “Selta”	Transportation services for the Group	100%	100%	100%
LLC “Project M”	Food retail in Saint-Petersburg	100%	100%	100%
LLC “Magnit-Nizhniy Novgorod”	Holding company of LLC “Tandem”	51%	51%	0%
LLC “Tandem”	Food retail in Nizhniy Novgorod	51%	51%	0%
LLC “Alkotrading”	License holder for alcohol sales	100%	100%	100%
LLC “Vals”	Food retail in Nizhniy Novgorod	0%	51%	0%

At December 31, 2007, 2006 and 2005 the shareholding structure of the Company was as follows:

Shareholder	2007		2006		2005	
	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %	Number of shares	Ownership interest, %
Galitskiy S.N.	36,720,000	51.00%	36,720,000	51.00%	43,157,124	66.45%
Labini Investments Ltd. (Cyprus)	7,402,611	10.28%	7,660,664	10.64%	14,612,994	22.50%
Lavreno Ltd. (Cyprus)	5,160,364	7.17%	5,033,455	6.99%	-	-
Gordeichuk V.E.	2,999,100	4.17%	3,114,100	4.33%	3,572,082	5.50%
Other (Group management)	2,238,450	3.11%	2,434,359	3.38%	3,604,554	5.55%
Free float	17,479,475	24.27%	17,037,422	23.66%	-	-
<b>Total</b>	<b>72,000,000</b>	<b>100%</b>	<b>72,000,000</b>	<b>100%</b>	<b>64,946,754</b>	<b>100%</b>

At December 31 2007, the Group's current liabilities exceed its current assets. In recent years the Group has expanded rapidly and during 2007 commenced development of a hypermarket format. Due to the fact that the costs of long term borrowings have been higher compared to those of shorter maturities, such development has been funded with borrowings subject to repayment terms of short-term duration. At the end of 2007 and early in 2008 the Group entered into a number of credit agreements exceeding one year, allowing it to borrow up to RUB 4,350,000 thousand (USD 177,217 thousand). Utilisation of such borrowings may be used to refinance the Group's current obligations, if required.

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments and management of capital (see note 33).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives* and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these new and revised Standards and Interpretations did not result in changes to the Group's accounting policies.

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

New or revised Standards and Interpretations	Effective for accounting periods beginning on or after
IAS 23 (Revised) "Borrowing Costs"	January 1, 2009
IFRS 3 (Revised) "Business Combinations"	January 1, 2009
IFRS 8 "Operating Segments"	January 1, 2009
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"	March 1, 2007
IFRIC 12 "Service Concession Arrangements"	January 1, 2008
IFRIC 13 "Customer Loyalty Programs"	July 1, 2008
IFRIC 14 IAS 19 – The Limit on a defined Benefit Asset, Minimum Funding Requirements and their interaction	January 1, 2008

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

### 3. GROUP REORGANISATION

In 2005, Magnit's ultimate controlling party, Galitskiy S.N., completed a group reorganization involving CJSC Magnit and another entity under its control, CJSC Tander. As part of the reorganization, 275,815,300 ordinary shares in CJSC "Tander" of RUB 0.01 were transferred to CJSC Magnit by the shareholders for 2,758,153 ordinary shares in CJSC "Magnit". As a result of the share transfer, Magnit became the holding company of CJSC "Tander" and its subsidiaries. However, the principal retail operations of the Group continued to be conducted through Tander.

The Group reorganization was considered to be a common control transaction and was accounted for in accordance with the accounting policies specified in Note 5.

In addition to the share exchange, Magnit undertook certain equity transactions related to the reorganization. These equity transactions and movements in share capital and share premium are disclosed in Note 23.

### 4. PRESENTATION OF FINANCIAL STATEMENTS

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

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

The consolidated financial statements of the Group are prepared on the historical cost basis.

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

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

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

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented;
- All items included in the consolidated statement of changes in equity, other than net profit for the year, are translated at historical exchange rates;
- All income and expenses in each consolidated income statement are translated at the average exchange rates for the years presented; and
- In the consolidated cash flow statement, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at the average exchange rates for the years presented.

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

## 5. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

**Business Combinations** – Acquisitions of subsidiaries and businesses from third parties are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

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

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

**Common control transactions** – Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Company. The consolidated historical financial statements of the Group are retrospectively restated to reflect the effect of the acquisition as if it occurred during the period in which the entities were under common control. Any difference between the purchase price and the net assets acquired is reflected in equity.

Disposal of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the disposed entity not combined with that of the Company. The consolidated historical financial statements of the Group are retrospectively restated to reflect the effect of the disposal as if it occurred during the period in which the entities were under common control. Any difference between the proceeds received from the disposal and the net assets disposed of is reflected in equity.

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

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

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

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

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

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

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



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

**Revenue recognition** – The Group generates and recognizes sales to retail customers at the point of sale in its stores and to wholesale customers at the point of sale in its distribution centers. Retail sales are in cash. Revenues are measured at the fair value of the consideration received or receivable, recognized net of value added tax and are reduced for estimated customer returns. Historical information in relation to the timing and frequency of customer returns is used to estimate and provide for such returns at the time of sale.

**Property, plant and equipment** – Property, plant and equipment is stated at cost less accumulated depreciation.

Historical cost information was not available in relation to buildings purchased prior to January 1, 2004. Therefore, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value cost as of the date of transition to IFRS and deemed those values as cost. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. Some of the property, plant and equipment are of a specialized nature and their fair values were considered to approximate their depreciated replacement cost. Depreciated replacement cost is estimated based on the property's current replacement cost adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence.

Cost includes major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to income statement as incurred.

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

<b>Description</b>	<b><u>Useful life, years</u></b>
Buildings	30
Machinery and equipment	3-14
Other fixed assets	3-5

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

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

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

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

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

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

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

The following useful lives are used in the calculation of amortisation:

<b>Description</b>	<b><u>Useful life, years</u></b>
Licenses	3
Lease rights	9
Software	2
Trade mark	9
Other	2

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

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

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

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

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

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

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

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

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

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

**Vendor allowances** – The Group receives various types of allowances from vendors in the form of slotting fees, volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the vendor or the cost of promotional activities conducted by the Group that benefit the vendor. Volume-related rebates and other payments received from suppliers are recorded as a reduction in the price paid for the products and are recognised in cost of goods sold in the period the products are sold. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned. Marketing contributions received from suppliers are credited to the income statement as a reduction to the cost of goods sold in the period in which they are earned.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

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

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

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

**Borrowing costs** – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are recognised in profit or loss in the period in which they are incurred, as well as all other borrowing costs.

## **Financial Assets**

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

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

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

***AFS financial assets*** – Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 33. Gains and losses arising from changes in fair value are recognised directly in equity in the investment revaluation reserve with the exception of impairment losses, interest is calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

For AFS investments for which there are no reliable market information to determine fair value, the investments are carried at cost.

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

### **Impairment of Financial Assets**

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

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

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

***Derecognition of financial assets*** – The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## **Financial Liabilities and Equity Instruments Issued by the Group**

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

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

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

***Financial liabilities at FVTPL*** – Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if it has been incurred principally for the purpose of repurchasing in the near future, or it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking, or it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis, or it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments:

Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 33.

***Other financial liabilities*** – Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

***Derecognition of financial liabilities*** – The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

## **6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

The most significant areas requiring the use of management estimates and assumptions relate to useful economic lives of property, plant and equipment; impairment of assets and taxation.

### **Useful economic life of property, plant and equipment**

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

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

Changes in the useful economic life of property, plant and equipment will be recognized prospectively in the income statement.

### **Impairment of assets**

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash-generating units and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated from each store based on cash flows projection utilising the latest budget information available.

The discounted cash flow model requires numerous estimates and assumptions regarding the future rates of market growth, market demand for the products and the future profitability of products. A critical assumption within the Group's cash flow model is that the rapid growth in the Russian economy will continue leading to increases in real disposal income and wages that are consistent with those experienced in the last three years. No improvements in operating margins or working capital are assumed.

Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material.

### **Taxation**

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

## **7. REVENUE**

Revenue for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Retail	3,647,638	2,460,955	1,552,559
Wholesale	<u>28,921</u>	<u>44,075</u>	<u>25,113</u>
<b>Total</b>	<b><u>3,676,559</u></b>	<b><u>2,505,030</u></b>	<b><u>1,577,672</u></b>

## **8. COST OF SALES**

Cost of sales, classified by function, for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Retail	2,919,756	2,012,822	1,287,765
Wholesale	<u>26,759</u>	<u>35,175</u>	<u>23,307</u>
<b>Total</b>	<b><u>2,946,515</u></b>	<b><u>2,047,997</u></b>	<b><u>1,311,072</u></b>



Cost of sales, classified by nature, for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cost of goods sold	2,959,290	2,037,850	1,296,361
Transportation expenses	59,983	35,771	20,053
Losses due to inventory shortages	17,256	8,995	7,158
Rebates and promotional bonuses received from suppliers	(90,014)	(34,619)	(12,500)
<b>Total</b>	<b><u>2,946,515</u></b>	<b><u>2,047,997</u></b>	<b><u>1,311,072</u></b>

## 9. SELLING EXPENSES

Selling expenses for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Packaging and raw materials	11,742	8,738	6,402
Depreciation	9,394	3,929	1,418
Fuel	3,467	2,458	1,533
Transportation	2,464	3,209	3,338
Advertising	2,421	1,604	1,828
<b>Total</b>	<b><u>29,488</u></b>	<b><u>19,938</u></b>	<b><u>14,519</u></b>

## 10. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Payroll	241,459	151,761	89,920
Rent and utilities	139,194	87,887	42,707
Payroll related taxes	59,855	37,981	22,615
Depreciation	43,708	25,020	13,638
Repair and maintenance	10,812	5,526	7,289
Taxes, other than income tax	9,574	7,039	1,729
Bank services	7,155	4,729	2,840
Security	5,627	4,065	2,466
Provision for unused vacation	3,021	1,873	-
Bad debt provision	(913)	736	546
Other expenses	17,861	14,766	4,473
<b>Total</b>	<b><u>537,353</u></b>	<b><u>341,383</u></b>	<b><u>188,223</u></b>

## 11. INVESTMENT INCOME

Investment income for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest on loans	375	283	9
Interest income from related party	219	-	-
Interest on deposit from related party	-	1,039	-
Other investment revenue	46	-	-
<b>Total</b>	<b><u>640</u></b>	<b><u>1,322</u></b>	<b><u>9</u></b>

## 12. FINANCE COSTS

Finance costs for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest on loans	16,776	5,471	11,190
Interest on bonds	15,965	6,503	689
Interest on finance leases	<u>3,360</u>	<u>2,382</u>	<u>1,002</u>
<b>Total</b>	<b><u>36,101</u></b>	<b><u>14,356</u></b>	<b><u>12,881</u></b>

## 13. INCOME TAX

The Group's provision for income tax for the years ended December 31, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current tax	28,931	20,472	10,135
Deferred tax	<u>3,795</u>	<u>3,028</u>	<u>2,382</u>
<b>Total income tax expense</b>	<b><u>32,726</u></b>	<b><u>23,500</u></b>	<b><u>12,517</u></b>

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

The movements for 2007, 2006 and 2005 in the Group's deferred tax position are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Liability at the beginning of the year	14,714	9,968	8,270
Charge for the year	3,795	3,028	2,382
Currency adjustment	<u>(2,698)</u>	<u>1,718</u>	<u>(684)</u>
<b>Liability at the end of the year</b>	<b><u>15,811</u></b>	<b><u>14,714</u></b>	<b><u>9,968</u></b>

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	15,452	14,714	9,968
Other deferred tax liabilities	<u>359</u>	<u>-</u>	<u>-</u>
<b>Net deferred tax liability</b>	<b><u>15,811</u></b>	<b><u>14,714</u></b>	<b><u>9,968</u></b>

The statutory tax rate effective in the Russian Federation, the location of all of the Group's entities, was 24% in 2007, 2006 and 2005. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group's income statement:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Profit before tax	130,116	81,465	50,030
Theoretical income tax expense at 24%	(31,228)	(19,552)	(12,007)
Adjustments due to:			
Tax effect of losses due to inventory shortages not deductible in determining taxable profit	(1,899)	(2,018)	(1,036)
Tax effect of other income that is not taxable in determining taxable profit	401	-	526
Tax effect of other expenses that are not deductible in determining taxable profit	-	(1,930)	-
<b>Income tax expense</b>	<b><u>(32,726)</u></b>	<b><u>(23,500)</u></b>	<b><u>(12,517)</u></b>

#### 14. EARNINGS PER SHARE

Earnings per share for the years ended December 31, 2007, 2006 and 2005 have been calculated on the basis of the net profit for the year and the weighted average number of common shares in issue during the year.

The calculation of earnings per common share for the years ended December 31, 2007, 2006 and 2005 is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Profit for the year attributable to equity holders of the parent	96,549	57,420	37,513
Weighted average number of shares (in thousand of shares)	<u>72,000</u>	<u>70,589</u>	<u>64,947</u>
<b>Basic earnings per share (in US Dollars)</b>	<b><u>1.34</u></b>	<b><u>0.81</u></b>	<b><u>0.58</u></b>

Earnings per share have been determined using the weighted average number of the Company's shares outstanding during the years ended December 31, 2007, 2006 and 2005. The earnings per share amount for 2006 has been restated from \$8.10, as disclosed in the 2006 financial report signed on 17 April 2006 to \$0.81. The restatement arises due to the fact that the weighted average number of shares for 2006 did not take into account the bonus issue of shares that occurred during 2006 in the calculation of earnings per share in 2006.

The Group does not have any potentially dilutive equity instruments.

## 15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2007, 2006 and 2005 consisted of the following:

	Land	Buildings	Machinery and equipment	Other assets	Construction in progress	Equipment under finance lease	Total
<b>Cost</b>							
At January 1, 2005	-	24,888	50,027	7,481	18,147	2,679	103,222
Additions	-	-	32,274	667	45,398	8,729	87,068
Transfers	-	32,259	-	-	(32,259)	-	-
Disposals	-	(815)	(374)	(18)	-	-	(1,207)
Currency adjustment	-	(1,302)	(2,413)	(482)	(881)	(265)	(5,343)
At December 31, 2005	-	55,030	79,514	7,648	30,405	11,143	183,740
At January 1, 2006	-	55,030	79,514	7,648	30,405	11,143	183,740
Acquired on acquisition of subsidiary	-	-	459	13	517	-	989
Additions	2,865	-	62,715	25,756	209,553	13,954	314,843
Transfers	-	95,802	-	-	(95,802)	-	-
Disposals	-	(1,150)	(600)	(699)	(755)	-	(3,204)
Transfer from lease to fixed assets	-	-	-	381	-	(381)	-
Currency adjustment	93	8,192	9,435	1,537	6,513	1,478	27,248
At December 31, 2006	2,958	157,874	151,523	34,636	150,431	26,194	523,616
At January 1, 2007	2,958	157,874	151,523	34,636	150,431	26,194	523,616
Additions	29,418	20	71,053	13,811	456,712	35,464	606,478
Transfers	-	197,615	-	-	(197,615)	-	-
Disposals	-	(3,704)	(1,446)	(910)	(5)	-	(6,065)
Transfer from lease to fixed assets	-	-	-	1,139	-	(1,139)	-
Currency adjustment	1,450	19,678	13,944	3,085	21,816	3,346	63,319
At December 31, 2007	33,826	371,483	235,074	51,761	431,339	63,865	1,187,348
<b>Accumulated Depreciation</b>							
At January 1, 2005	-	(687)	(7,686)	(827)	-	(101)	(9,301)
Charge for the year	-	(1,121)	(12,658)	(426)	-	(851)	(15,056)
Eliminated on disposals	-	17	77	7	-	-	101
Currency adjustment	-	45	519	42	-	18	624
At December 31, 2005	-	(1,746)	(19,748)	(1,204)	-	(934)	(23,632)
At January 1, 2006	-	(1,746)	(19,748)	(1,204)	-	(934)	(23,632)
Charge for the year	-	(3,116)	(21,313)	(1,357)	-	(3,163)	(28,949)
Eliminated on disposals	-	44	151	293	-	-	488
Transfer from lease to fixed assets	-	-	-	(246)	-	246	-
Currency adjustment	-	(262)	(2,525)	(153)	-	(182)	(3,122)
At December 31, 2006	-	(5,080)	(43,435)	(2,667)	-	(4,033)	(55,215)
At January 1, 2007	-	(5,080)	(43,435)	(2,667)	-	(4,033)	(55,215)
Charge for the year	-	(7,581)	(36,331)	(3,710)	-	(5,480)	(53,102)
Eliminated on disposals	-	90	534	384	-	-	1,008
Transfer from lease to fixed assets	-	-	-	(527)	-	527	-
Currency adjustment	-	(635)	(4,302)	(353)	-	(501)	(5,791)
At December 31, 2007	-	(13,206)	(83,534)	(6,873)	-	(9,487)	(113,100)
<b>Net Book Value</b>							
At December 31, 2005	-	53,284	59,766	6,444	30,405	10,209	160,108
At December 31, 2006	2,958	152,794	108,088	31,969	150,431	22,161	468,401
At December 31, 2007	33,826	358,277	151,540	44,888	431,339	54,378	1,074,248

At December 31, 2007 property, plant and equipment with a net book value of USD 6,927 thousand was pledged to secure certain short term and long term loans granted to the Group (Notes 24 and 28).

At December 31, 2006 property, plant and equipment with a net book value of USD 7,503 thousand was pledged to secure certain bank guarantees, short-term and long-term loans granted to the Group.

At December 31, 2005, no property, plant and equipment was pledged to secure short-term and long-term loans granted to the Group.

The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity without prior approval from the collateral holder.

## 16. INTANGIBLE ASSETS

Intangible assets as of December 31, 2007, 2006 and 2005 consisted of the following:

	<u>Licenses</u>	<u>Lease rights</u>	<u>Software</u>	<u>Trade mark</u>	<u>Other</u>	<u>Total</u>
<b>Cost</b>						
At January 1, 2005	42	-	3	29	69	143
Additions	59	174	30	16	25	304
Disposals	-	-	-	-	-	-
Currency adjustment	(3)	(2)	-	(1)	(2)	(8)
At December 31, 2005	<u>98</u>	<u>172</u>	<u>33</u>	<u>44</u>	<u>92</u>	<u>439</u>
At January 1, 2006	98	172	33	44	92	439
Acquired on acquisition of subsidiary	-	383	-	-	-	383
Additions	137	110	129	22	20	418
Disposals	(88)	(47)	(35)	-	(80)	(250)
Currency adjustment	11	31	7	6	7	62
At December 31, 2006	<u>158</u>	<u>649</u>	<u>134</u>	<u>72</u>	<u>39</u>	<u>1,052</u>
At January 1, 2007	158	649	134	72	39	1,052
Additions	218	69	247	63	147	744
Disposals	(125)	(106)	(15)	-	(9)	(255)
Currency adjustment	15	45	20	7	9	96
At December 31, 2007	<u>266</u>	<u>657</u>	<u>386</u>	<u>142</u>	<u>186</u>	<u>1,637</u>
<b>Accumulated Amortization</b>						
At January 1, 2005	(24)	-	-	(4)	(1)	(29)
Charge for the year	(34)	(1)	(10)	(5)	(10)	(60)
Eliminated on disposals	-	-	-	-	-	-
Currency adjustment	1	-	-	-	(1)	-
At December 31, 2005	<u>(57)</u>	<u>(1)</u>	<u>(10)</u>	<u>(9)</u>	<u>(12)</u>	<u>(89)</u>
At January 1, 2006	(57)	(1)	(10)	(9)	(12)	(89)
Acquired on acquisition of subsidiary	-	-	-	-	-	-
Charge for the year	(81)	(34)	(4)	(4)	(15)	(138)
Eliminated on disposals	88	-	11	-	14	113
Currency adjustment	(6)	(1)	(2)	(1)	(1)	(11)
At December 31, 2006	<u>(56)</u>	<u>(36)</u>	<u>(5)</u>	<u>(14)</u>	<u>(14)</u>	<u>(125)</u>
At January 1, 2007	(56)	(36)	(5)	(14)	(14)	(125)
Charge for the year	(162)	(136)	(156)	(30)	(80)	(564)
Eliminated on disposals	132	28	15	-	8	183
Currency adjustment	(7)	(7)	(7)	(3)	(4)	(28)
At December 31, 2007	<u>(93)</u>	<u>(151)</u>	<u>(153)</u>	<u>(47)</u>	<u>(90)</u>	<u>(534)</u>
<b>Net Book Value</b>						
At December 31, 2005	<u>41</u>	<u>171</u>	<u>23</u>	<u>35</u>	<u>80</u>	<u>350</u>
At December 31, 2006	<u>102</u>	<u>613</u>	<u>129</u>	<u>58</u>	<u>25</u>	<u>927</u>
At December 31, 2007	<u>173</u>	<u>506</u>	<u>233</u>	<u>95</u>	<u>96</u>	<u>1,103</u>

Amortization expense is included in other expenses (Note 10).

## 17. MERCHANDISE

Merchandise as at December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Goods for resale	330,409	247,466	151,276
<b>Total</b>	<b><u>330,409</u></b>	<b><u>247,466</u></b>	<b><u>151,276</u></b>

As at December 31, 2007 merchandise with an approximate book value USD 34,983 thousand (2006: USD 27,651 thousand, 2005: USD 48,395 thousand) was collateralised against short-term and long-term loans granted to the Group (Notes 24 and 28). The Group is not allowed to pledge these assets as security for other borrowings and is required to maintain its level of inventory in an amount equal to or exceeding the collateralised amount.

## 18. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable as of December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Trade receivables from third parties	2,614	6,459	1,117
Trade receivables from related parties	3	-	-
Less: provision for doubtful trade receivables	<u>(202)</u>	<u>(1,115)</u>	<u>(379)</u>
<b>Total</b>	<b><u>2,415</u></b>	<b><u>5,344</u></b>	<b><u>738</u></b>

The average credit period for wholesale was 49 days in 2007, 25 days in 2006 and 38 days in 2005. No interest is charged on outstanding receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of USD 944 thousand which are past due at the reporting date for which the Group has not provided a reserve as there has not been a significant change in their credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these balances is 45 days.

Ageing of trade receivables past due but not impaired:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
less than 90 days	1,890	4,124	488
between 90-180 days	160	480	26
between 180-360 days	137	1,500	56
greater than 360 days	<u>430</u>	<u>355</u>	<u>547</u>
<b>Total</b>	<b><u>2,617</u></b>	<b><u>6,459</u></b>	<b><u>1,117</u></b>

Movement in the provision for doubtful debts:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of the year	1,115	379	324
(Decrease)/increase in provision recognised in the profit or loss	<u>(913)</u>	<u>736</u>	<u>55</u>
<b>Balance at end of the year</b>	<b><u>202</u></b>	<b><u>1,115</u></b>	<b><u>379</u></b>

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

## 19. ADVANCES PAID

Advances paid as of December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Advances to third party suppliers	38,285	36,311	20,070
Advances to employees	11,117	21,759	572
Advances to related party suppliers	21	-	502
<b>Total</b>	<b><u>49,423</u></b>	<b><u>58,070</u></b>	<b><u>21,144</u></b>

## 20. OTHER RECEIVABLES

Other receivables as of December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Value Added Tax	7,580	11,283	23,048
Other taxes receivable	-	158	-
Settlements with employees	2,774	2,686	1,471
Other receivables from related parties	2,758	432	241
Claims to suppliers	136	409	279
Other	12,629	1,680	296
<b>Total</b>	<b><u>25,877</u></b>	<b><u>16,648</u></b>	<b><u>25,335</u></b>

The Group engaged a third party to assist it in sourcing land for future development. As part of this agreement, a loan was provided to the third party with shares in LLC Agrotorg being provided as collateral. As a result of the default on the loan, these shares were subsequently transferred to the Group and sold in December 2007. Under the agreement for the sale of the shares of USD 12,629 thousand is to be paid in May 2008 and is included as 'Other' above.

The Group does not hold any collateral over these balances. The average age of these balances is 45 days.

Ageing of other receivables past due but not impaired:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
less than 90 days	5,668	4,714	2,069
between 90-180 days	12,629	610	190
between 180-360 days	-	41	28
greater than 360 days	-	-	-
<b>Total</b>	<b><u>18,297</u></b>	<b><u>5,365</u></b>	<b><u>2,287</u></b>

In determining the recoverability of other receivables, the Group considers any change in their credit quality from the date credit was initially granted up to the reporting date. The directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

## 21. PREPAID EXPENSES

Prepaid expenses as of December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Expenses related to long-term lease contract	1,537	230	1
Property insurance	690	220	223
Rent	95	201	140
Other	132	179	28
<b>Total</b>	<b><u>2,454</u></b>	<b><u>830</u></b>	<b><u>392</u></b>

## 22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Petty cash	7,065	4,845	2,766
Cash on deposit held with a related party, in RUB	-	10,634	-
Cash in banks, in RUB	37,958	19,383	18,896
Cash in transit	75,936	54,927	24,109
<b>Total</b>	<b><u>120,959</u></b>	<b><u>89,789</u></b>	<b><u>45,771</u></b>

Cash in transit represents cash collected by the bank from the Group's stores and not deposited in a bank account as of December 31.

Deposits in Russian Roubles were placed with LLC KB Sistema in 2006, a related party, had interest of 12% per annum and matured in February-March 2007.

## 23. SHARE CAPITAL AND SHARE PREMIUM

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>No. ('000)</u>	<u>No. ('000)</u>	<u>No. ('000)</u>
Authorized share capital (ordinary shares with a par value of RUB 0.01)	200,850	200,850	200,850
Issued and fully paid (par value of RUB 0.01)	72,000	72,000	64,947

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	<u>No. ('000)</u>	<u>No. ('000)</u>	<u>No. ('000)</u>
Balance at beginning of financial year	72,000	64,947	850
Issue of shares related to reorganization	-	7,053 (c)	2,758 (a)
Bonus share issue	-	-	61,339 (b)
Balance at the end of financial year	<u>72,000</u>	<u>72,000</u>	<u>64,947</u>

(a) The Group issued 2,758,153 of ordinary shares for a total cash consideration of RUB 4,138 thousand (USD 148 thousand). The difference between cash received and the nominal value of shares (USD 148 thousand) was recorded as share premium at the beginning of the year ended January 1, 2005.



- (b) In December, 2005 the Group issued an additional 61,338,601 ordinary shares for no consideration to its shareholders. For the purposes of calculating earnings per share for 2005, the weighted average number of shares has been adjusted as if these bonus shares were on issue at the beginning of the 2005 financial year.
- (c) In March, 2006 the Group issued an additional issue 7,053,246 ordinary shares for a cash consideration of RUB 5,018,596 thousand, the difference between cash received and the nominal value of shares (USD 179,279 thousand) was recorded as share premium during the year ended December 31, 2006.

Distributable profits are determined on the basis of profits reported in the statutory financial statements of the Company. These profits may differ significantly from those profits recorded under IFRS on a consolidated basis.

No cash dividends were declared or paid in 2007, 2006 or 2005.

## 24. LONG-TERM LOANS AND BONDS

Long-term loans and bonds as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007		2006		2005	
	Weighted average interest rate	Amount	Weighted average interest rate	Amount	Weighted average interest rate	Amount
Bonds issued in 2007	8.20%	147,132	-	-	-	-
Bonds issued in 2005	9.34%	85,287	9.34%	73,491	9.34%	69,707
Raiffeisen Bank	9.18%	13,648	-	-	-	-
Sberbank, Volgo-Vjatskij branch	-	-	8.01%	5,481	-	-
Uralsib Bank	-	-	8%	3,950	-	-
Sberbank, Stavropol branch	-	-	-	-	10%	19,109
Sberbank, Krasnodar branch	-	-	-	-	8.15%	10,423
International Moscow Bank	-	-	-	-	9%	5,212
Current portion of long-term loans (Note 28)	9.34%	(85,287)	-	-	-	(25,100)
<b>Total long-term loans</b>		<b><u>160,780</u></b>		<b><u>82,922</u></b>		<b><u>79,351</u></b>

### 2007

**Raiffeisen Bank** – The Group entered into a number of credit line agreements allowing borrowings of up to RUB 335,000 thousand (USD 13,648 thousand) maturing between June-July 2009. The amount outstanding as of December 31, 2007 is RUB 335,000 thousand (USD 13,648 thousand) plus interest accrued of RUB 931 thousand (USD 38 thousand). The credit lines were unsecured as of December 31, 2007. Interest payable is based on Mosprime + 2.70%.

**Bonds** – In March 2007 the Group issued bonds of RUB 5,000,000 thousand (USD 203,698 thousand), net of RUB 23,025 thousand direct issue costs (USD 938 thousand) maturing in March 2012. The total amount outstanding as of December 31, 2007 is RUB 3,631,233 thousand (USD 147,935 thousand), net of RUB 19,717 thousand of direct issue costs (USD 803 thousand) plus accrued interest of RUB 76,679 thousand (USD 3,124 thousand). The bonds are listed on the Moscow Interbank Currency Exchange (“MICEX”). Bonds of RUB 1,368,767 thousand (USD 55,763 thousand) of the issue were purchased in the open market and are held by CJSC “Tander”.

## 2006

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

**Sberbank, Volgo-Vjatskij branch** – In September 2006 the Group entered into a credit agreement for borrowings of up to RUB 144,000 thousand (USD 5,469 thousand) maturing in March 2008. The credit line was collateralized by merchandise with an approximate book value of RUB 124,661 thousand (USD 4,734 thousand) and fixed assets with an approximate book value of RUB 63,084 thousand (USD 2,396 thousand). The borrowings were fully repaid in 2007. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2007.

**Uralsib Bank** – During 2006, the Group entered into a line of credit agreement for borrowings of up to RUB 115,000 thousand (USD 4,367 thousand) maturing in 2008. The total amount outstanding as of December 31, 2006 was RUB 104,000 thousand (USD 3,950 thousand). The credit line was collateralized by merchandise with an approximate book value of RUB 91,938 thousand (USD 3,492 thousand) and fixed assets with an approximate book value of RUB 79,753 thousand (USD 3,029 thousand). The borrowings were fully repaid in 2007. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2007.

## 2005

**Sberbank, Stavropol Branch** – In December 2005 the Group secured a number of credit facilities totaling RUB 550,000 thousand (USD 19,109 thousand) maturing in June 2007. The facilities bore interest at 10% per annum. Merchandise with a book value of USD 23,681 thousand was pledged to collateralize the outstanding balance as of December 31, 2005. The borrowings were fully repaid in 2006. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2006.

**Sberbank, Krasnodar Branch** – In November-December 2005 the Group secured a number of credit facilities totaling RUB 300,000 thousand (USD 10,423 thousand) maturing in May 2007. These facilities were unsecured as of December 31, 2005. The borrowings were fully repaid in 2006. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2006.

**International Moscow Bank** – In September 2005 the Group entered into a credit agreement totaling RUB 150,000 thousand (USD 5,212 thousand) maturing in March 2007. Merchandise with a book value of USD 6,254 was pledged to collateralize the outstanding balance as of December 31, 2005. The credit arrangement was terminated and was no longer available to the Group as at 31 December 2006.

## 25. OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases as of December 31, 2007, 2006 and 2005 consisted of the following:

	<b>Minimum lease payments 2007</b>	<b>Minimum lease payments 2006</b>	<b>Minimum lease payments 2005</b>	<b>Present value of minimum lease payments 2007</b>	<b>Present value of minimum lease payments 2006</b>	<b>Present value of minimum lease payments 2005</b>
<b>Amounts payable under finance leases</b>						
Within one year	16,905	8,180	3,472	13,143	6,715	2,554
Between one and two years	13,203	5,063	2,846	11,024	4,679	2,433
Over two years	12,511	1,814	1,068	11,640	1,746	1,033
	<u>42,619</u>	<u>15,057</u>	<u>7,386</u>	<u>35,807</u>	<u>13,140</u>	<u>6,020</u>
Less: future finance charges	(6,759)	(1,847)	(1,438)	-	-	-
Effect of foreign exchange rates	(53)	(70)	72	-	-	-
<b>Present value of lease payments</b>	<b><u>35,807</u></b>	<b><u>13,140</u></b>	<b><u>6,020</u></b>	<b><u>35,807</u></b>	<b><u>13,140</u></b>	<b><u>6,020</u></b>
Less: Amount due for settlement within 12 months				(13,143)	(6,716)	(2,554)
<b>Amount due for settlement after 12 months</b>				<b><u>22,664</u></b>	<b><u>6,424</u></b>	<b><u>3,466</u></b>

The Group has entered into certain lease agreements with LLC “Hansa Leasing”, LLC “Raiffeisen-Leasing”, CJSC “Delta Leasing”, CJSC “Europlan” and LLC “Resotrust” for the rent of vehicles with an average lease term of 2.45 years. The average borrowing rate for 2007, 2006 and 2005 was 18%, 23% and 19%, respectively. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent lease payments.

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

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

## 26. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of December 31, 2007, 2006 and 2005 consisted of the following:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Trade payables to third parties	437,639	280,195	152,285
Trade payables to related parties (Note 29)	4	1,206	1,939
<b>Total</b>	<b><u>437,643</u></b>	<b><u>281,401</u></b>	<b><u>154,224</u></b>

The average credit period for purchases was 45 days in 2007, 39 in 2006 and 36 in 2005. Interest may be charged on the outstanding balance based on market rates in accordance with certain agreements with vendors, however no significant amounts of interest were charged to the Group during the years presented. The Group has financial risk management policies in place to help ensure that all payables are paid within the credit timeframe.

## 27. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of December 31, 2007, 2006 and 2005 consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Accrued salaries and wages	23,893	14,670	8,560
Other accrued expenses	5,735	2,708	626
Unified Social Tax	4,122	3,288	1,969
Personal Income Tax	3,044	2,231	1,327
Property tax	2,765	1,307	419
Value Added Tax	1,064	3,197	8,143
Other payables to third parties	947	862	2,235
Other payables to related parties (Note 29)	853	178	-
Other taxes	389	195	54
<b>Total</b>	<b><u>42,812</u></b>	<b><u>28,636</u></b>	<b><u>23,333</u></b>

## 28. SHORT-TERM LOANS

Short-term loans as of December 31, 2007, 2006 and 2005 consisted of the following:

	<b>Weighted average interest rate</b>	<b>2007</b>	<b>Weighted average interest rate</b>	<b>2006</b>	<b>Weighted average interest rate</b>	<b>2005</b>
Sberbank, Krasnodar branch	7.71%	164,914	7.40%	36,049	8.00%	17,928
Bonds issued in 2005	9.34%	85,287	-	-	-	-
Sberbank, Severokavkazskiy branch	8.02%	43,416	7.42%	38,123	-	-
Raiffeisen Bank	8.93%	44,284	-	-	-	-
BSGV	9.03%	40,912	-	-	-	-
Deutsche bank	11.00%	40,074	-	-	-	-
International Moscow Bank	9.39%	32,677	6.92%	31,243	8.71%	10,085
Gazprombank	10.00%	20,370	6.50%	26,585	-	-
Uralsib Bank	10.00%	10,959	8%	1,519	-	-
Sberbank, Volgo-Vjatskiy branch	10.00%	8,360	10.01%	1,905	-	-
Yugbank	6%	2,883	6.50%	-	8.00%	1,741
Kukushkin V.	0%	1,727	-	-	-	-
Edelveis	8%	174	-	-	-	-
Other short-term loans	0%	10	0%	760	0%	2,570
Alfa Bank	-	-	8.94%	18,998	8.94%	17,376
CJSC Ob'edinenniy capital	-	-	4.50%	2,705	-	-
Bank Vozrozhdenie	-	-	9.91%	1,045	-	-
Sberbank, Nizhniy Novgorod	-	-	5.00%	1,016	-	-
Short-term loans from related parties	-	-	0%	471	0%	19
Current portion of long-term loans (Note 24)	-	-	-	-	-	25,100
<b>Total short-term loans</b>		<b><u>496,047</u></b>		<b><u>160,419</u></b>		<b><u>74,819</u></b>

2007

**Sberbank, Krasnodar branch** – The Group entered into a number of credit agreements allowing borrowings of up to RUB 4,048,000 thousand (USD 164,914 thousand) maturing between January-April 2008. The credit lines were unsecured as of December 31, 2007.

**Bonds** – In November 2005 the Group issued bonds of RUB 2,000,000 thousand (USD 69,486 thousand) maturing in November 2008. Interest is payable twice a year in May and November. The bonds are listed on Moscow Interbank Currency Exchange (“MICEX”).

**Sberbank, Severokavkazskiy branch** – The Group entered into a number of credit agreements for borrowings of up to RUB 1,065,000 thousand (USD 43,388 thousand) maturing between January-February 2008. The credit lines were unsecured as of December 31, 2007.

**Raiffeisen Bank** – The Group entered into a number of credit agreements for borrowings of up to RUB 1,085,000 thousand (USD 44,202 thousand) maturing in April 2008. The credit lines were unsecured as of December 31, 2007.

**BSGV Bank** – The Group entered into a number of credit agreements for borrowings of up to RUB 1,000,000 thousand (USD 40,740 thousand) maturing in May 2008. The credit lines were unsecured as of December 31, 2007.

**Deutsche bank** – The Group issued promissory notes of RUB 1,034,048 thousand (USD 42,127 thousand) maturing in June 2008. The credit lines were unsecured as of December 31, 2007.

**International Moscow Bank** – The Group entered into a number of credit agreements for borrowings of up to RUB 1,000,000 thousand (USD 40,740 thousand) maturing between January-March 2008. The credit lines were unsecured as of December 31, 2007.

**Gazprombank** – The Group entered into a number of credit agreements for borrowings of up to RUB 1,000,000 thousand (USD 40,740 thousand) maturing in March 2008. The credit lines were unsecured as of December 31, 2007.

**Uralsib Bank** – The Group entered into a number of credit agreements for borrowings of up to RUB 335,000 thousand (USD 13,648 thousand) maturing between May – October 2008. The credit lines are collateralized by fixed assets with an approximate book value of RUR 15,018 thousand (USD 612 thousand), equipment with an approximate book value of RUR 112,461 thousand (USD 4,582 thousand) and merchandise with an approximate book value of RUR 399,644 thousand (USD 16,281 thousand).

**Sberbank, Volgo-Vjatskiy branch** – The Group entered into a number of credit agreements for borrowings of up to RUB 275,000 thousand (USD 11,203 thousand) maturing between March 2008-October 2008. The credit lines are collateralized by merchandise with approximate book value of RUR 459,060 thousand (USD 18,702 thousand) and equipment with approximate book value of RUR 42,530 thousand (USD 1,733 thousand).

**Yugbank** – The Group entered into a number of credit agreements maturing in March 2008. The total amount outstanding as of December 31, 2007 is RUB 70,596 thousand plus interest accrued of RUB 169 thousand (total amount of USD 2,883 thousand). The credit lines were unsecured as of December 31, 2007.

**Kukushkin Vladimir Yur'evich** – The Group entered into loan agreement maturing between January-March 2008. The loan is interest-free.

**Edelveis** -The Group entered into a number of credit agreements maturing in October 2008. The credit agreements were unsecured as of December 31, 2007.

In 2007 the Group has significantly increased the amount of short-term loans taken to serve the ongoing requirements of its expanding business. The Group intends to refinance these loans through the issuance of new equity in April 2008.

## **2006**

**Sberbank, Krasnodar branch** - The Group repaid in full the amount outstanding as of December 31, 2005. During 2006 the Group entered into a number of credit agreements with total borrowing capacity of RUB 4,235,128 thousand (USD 160,841 thousand) maturing between April – December 2006 and between February – March 2007. The credit lines were unsecured as of December 31, 2006.

**Sberbank, Severokavkazskiy branch** - The Group entered into a number of non-renewable and overdraft credit agreements maturing between February 2006 – April 2007 for borrowings of up to RUB 1,000,000 thousand (USD 37,978 thousand). The credit lines were unsecured as of December 31, 2006.

**International Moscow Bank** - The Group repaid in full the amount outstanding as of December 31, 2005. In September-December 2006 the Group entered into a number of credit agreements allowing for borrowings of up to RUB 2,000,000 thousand (USD 75,956 thousand) maturing in November 2006 – March 2007. The credit lines were unsecured as of December 31, 2006.

**Gazprombank** - The Group entered into a credit agreement for up to RUB 700,000 thousand (USD 26,585 thousand) maturing in December 2007. The total amount outstanding as of December 31, 2006 is RUB 700,000 thousand (USD 26,585 thousand). The credit line was unsecured as of December 31, 2006.

**Uralsib Bank** – During 2006 the Group entered into a number of credit agreements allowing borrowings of up to RUB 495,000 thousand (USD 18,799 thousand) maturing in November 2006 – July 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 73,916 thousand (USD 2,807 thousand).

**Sberbank, Volgo-Vjatskiy branch** – The Group entered into a number of credit agreements to borrow up to RUB 120,000 thousand (USD 4,557 thousand) maturing in August 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 52,211 thousand (USD 1,983 thousand).

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

**Alfa Bank** - The Group repaid in full the amount outstanding as of December 31, 2005. In December 2005 the Group entered into a number of credit agreements of RUB 4,115,000 thousand (USD 156,279 thousand) maturing between May 2006 – February 2007. The credit lines were collateralized by the pledge of equipment with an approximate book value of RUB 41,502 thousand (USD 1,576 thousand), merchandise with an approximate book value of RUB 294,247 thousand (USD 11,175 thousand).

**CJSC Ob'edinenniy capital** – The Group entered into a number of credit agreements for borrowings of up to RUB 70,000 thousand (USD 2,658 thousand) maturing in September 2007. The credit lines were unsecured as of December 31, 2006.

**Sberbank, Nizhnij Novgorod** - The Group entered into a credit agreement for borrowings of up to RUB 212,908 thousand (USD 8,086 thousand) maturing in August 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 57,381 thousand (USD 2,179 thousand).

**Bank Vozrozhdenie** - The Group entered into a credit agreement for borrowings of up to RUB 187,814 thousand (USD 7,113 thousand) maturing in July 2007. The credit lines were collateralized by merchandise with an approximate book value of RUB 33,732 thousand (USD 1,281 thousand).

Other short-term loans consist of various loans received from enterprises and individuals with principals varying from RUB 2 thousand (USD 0.08 thousand) to RUB 9,703 thousand (USD 368 thousand). The average principal is RUB 1,993 thousand (USD 75 thousand). All such loans were interest-free, unsecured and repayable in 2007. The effect of discounting is not significant.

During 2006 the Group obtained and repaid a number of short-term loans. The respective interest rates varied from 5% to 11.5%.

## **2005**

**Sberbank, Krasnodar Branch** - The Group entered into a credit agreement of RUB 516,000 thousand (USD 17,928 thousand) maturing in April 2006. This credit line was unsecured as of December 31, 2005.

**International Moscow Bank** - The Group entered into a number of credit agreements of RUB 290,000 thousand (USD 10,076 thousand) bearing interest from 7.95% to 9.15% per annum and maturing in May-August 2006. The credit lines were collateralized by the pledge of merchandise with a book value of USD 8,338 thousand.

**Yugbank** – The Group entered into a loan agreement of RUB 50,000 thousand (USD 1,737 thousand) maturing in January 2006. This loan was unsecured as of December 31, 2005.

**Alfa Bank** - The Group entered into a number of credit agreements of RUB 580,000 thousand (USD 20,151 thousand) bearing interest from 8.08% to 9.50% per annum and maturing in January-March 2006. The credit lines were collateralized by the pledge of merchandise with a book value of USD 10,122 thousand.

Other short-term loans consist of various loans received from enterprises and individuals with principals varying from RUB 443 (USD 15) to RUB 15,987 thousand (USD 555 thousand). The average principal is RUB 282 thousand (USD 10 thousand). All such loans were interest free, unsecured and repayable in 2006.

## **29. TRANSACTIONS WITH RELATED PARTIES**

The ultimate controlling party of the Group is Galitskiy S.N (Note 1).

The Group enters into transactions with related parties in the ordinary course of business. Related parties, allied with the Group through key management personnel, mainly purchase merchandise from the Group, obtain loans and hold bank deposits.

Loans to related parties mature in April-December 2007 and August-December 2011, are interest free and unsecured. These loans are stated at cost as the discounting effect is not significant. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Related party balances as of December 31, 2007, 2006 and 2005 consisted of the following:

	2007		2006		2005	
	Other related parties	Parent Company	Other related parties	Parent Company	Other related parties	Parent Company
Deposits	-	-	10,634	-	-	-
Trade receivables	3	-	-	-	-	-
Advances paid	21	-	-	-	502	-
Other receivables	2,758	-	432	-	241	-
Trade payables	4	-	1,206	-	1,939	-
Other payables	853	-	178	-	-	-
Loans given	12	-	27	-	-	-
Loans obtained	-	-	-	471	-	-

The Group's transactions with related parties for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007		2006		2005	
	Other related parties	Parent Company	Other related parties	Parent Company	Other related parties	Parent Company
Purchases of merchandise	-	-	90	-	6	-
Purchases of property, plant and equipment	36,787	-	25,475	-	1,492	-
Rent received	256	-	255	-	158	-
Loans obtained	-	-	-	438	61	1
Sales of merchandise	4,084	-	7,994	-	7,024	-
Other sales	2,692	-	-	-	-	-
Rent paid	557	-	648	-	716	-
Interest on deposit	216	-	1,035	-	-	-
Loans given	-	-	27	-	-	-

Short-term employee benefits of Group management and members of the Board of Directors of Group companies for 2007, 2006 and 2005 were USD 1,054 thousand, USD 541 thousand and USD 420 thousand, respectively.

### 30. CAPITAL AND RENT COMMITMENTS

As of December 31, 2007, 2006 and 2005 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	2007	2006	2005
Commitments for the acquisition of property, plant and equipment	21,167	33,120	14,137

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

	2007	2006	2005
Within one year	89,796	91,224	25,612
In the second to fifth years inclusive	98,237	60,204	26,536
After five years	7,926	14,357	1,955
<b>Total</b>	<b>195,959</b>	<b>165,785</b>	<b>54,103</b>



### 31. EVENTS AFTER THE BALANCE SHEET DATE

In February 2008 the Group entered into a number of additional credit agreements maturing in 2009 for RUR 4,350,000 thousand (USD 177,217 thousand).

### 32. CONTINGENCIES

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

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

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

### 33. FINANCIAL INSTRUMENTS

Management believes the fair value of financial instruments held by the Group approximates their carrying values due to the fact that a majority of the Group's financial assets and liabilities are short-term in nature. The long-term bonds issued by the Group in 2007 are listed on the Moscow Interbank Currency Exchange and their fair value as at 31 December 2007 for bonds issued in 2005 was USD 80,546 thousand and USD 143,213 thousand for bonds issued in 2007.

#### **Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity ratios.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 24 and 28, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 23.

### *Gearing ratio*

Management reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of up to 100% determined as the proportion of net debt to equity. The Group expects to decrease its gearing ratio through the issue of new equity.

The gearing ratio at December, 31 was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Debt	656,827	243,341	154,170
Cash and cash equivalents	(120,959)	(89,789)	(45,771)
Net debt	535,868	153,552	108,399
Equity	428,347	305,239	50,198
Net debt to equity ratio	125%	50%	216%

Debt is defined as long- and short-term borrowings. Equity includes all capital and reserves of the Group.

### *Categories of financial instruments*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 5 "Significant Accounting Policies".

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b><i>Financial assets</i></b>			
Loans and receivables	33,844	13,200	3,025
<b><i>Financial liabilities</i></b>			
Amortised cost	1,175,862	570,251	344,948

### *Foreign currency risk management*

The Group is not exposed to foreign currency risks as no activities and business operations are performed in foreign currencies and no subsidiaries of the Group are located outside the Russian Federation.

### *Interest rate risk management*

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by minimizing the portion of borrowings at floating rate.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed below.

### *Interest rate sensitivity analysis*

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest have been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by USD 432 thousand (2006: decrease/increase by USD 4 thousand).

### ***Credit risk management***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises only with respect to wholesale activities. During recent years the volume of wholesale business activities has significantly decreased in relation to the total volume of sales. The Group intends to cease its wholesale activities in the near term. The Group is dealing with creditworthy counterparties, who have a good long term credit history. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

Trade receivables consist of a relatively small number of wholesale customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the years presented.

### ***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built a liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### ***Liquidity and interest risk tables***

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	<b>Weighted average effective interest rate, %</b>	<b>Less than 1 month</b>	<b>1-3 month</b>	<b>3 month to 1 year</b>	<b>1-5 years</b>	<b>5&gt; years</b>	<b>Total</b>
<b>2007</b>							
Non-interest bearing	-	364,920	101,831	-	21	-	466,772
Finance lease liability	-	1,625	3,142	12,139	25,714	-	42,620
Variable interest rate instruments	8.00	922	42,075	50,210	7,502	-	100,709
Fixed interest rate instruments	7.37	2,312	198,506	247,367	200,440	-	648,625
		<b>369,779</b>	<b>345,554</b>	<b>309,716</b>	<b>233,677</b>	<b>-</b>	<b>1,258,726</b>
<b>2006</b>							
Non-interest bearing	-	224,562	65,021	-	-	-	289,583
Finance lease liability	-	769	1,486	5,925	6,877	-	15,057
Variable interest rate instruments	7.50	83	143	643	12,432	-	13,301
Fixed interest rate instruments	8.85	1,279	91,521	74,450	84,259	-	251,509
		<b>226,693</b>	<b>158,171</b>	<b>81,018</b>	<b>103,568</b>	<b>-</b>	<b>569,450</b>

	<b>Weighted average effective interest rate, %</b>	<b>Less than 1 month</b>	<b>1-3 month</b>	<b>3 month to 1 year</b>	<b>1-5 years</b>	<b>5&gt; years</b>	<b>Total</b>
<b>2005</b>							
Non-interest bearing	-	122,762	32,795	-	-	-	155,557
Finance lease liability	-	327	611	2,536	3,912	-	7,386
Variable interest rate instruments	7.50	3	-	-	-	-	3
Fixed interest rate instruments	8.85	7,605	16,444	35,424	129,772	-	189,245
		<b>130,697</b>	<b>49,850</b>	<b>37,960</b>	<b>133,684</b>	<b>-</b>	<b>352,191</b>

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	<b>Weighted average effective interest rate, %</b>	<b>Less than 1 month</b>	<b>1-3 month</b>	<b>3 month to 1 year</b>	<b>1-5 years</b>	<b>5&gt; years</b>	<b>Total</b>
<b>2007</b>							
Non-interest bearing	-	3,202	811	206	-	166	4,385
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	19.00	1,399	7,481	4,897	70	-	13,847
		<b>4,601</b>	<b>8,292</b>	<b>5,103</b>	<b>70</b>	<b>166</b>	<b>18,232</b>
<b>2006</b>							
Non-interest bearing	-	9,050	12,966	157	1	144	22,318
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	11.00	120	2,041	178	443	-	2,782
		<b>9,170</b>	<b>15,007</b>	<b>335</b>	<b>444</b>	<b>144</b>	<b>25,100</b>
<b>2005</b>							
Non-interest bearing	-	2,668	324	36	-	5	3,033
Variable interest rate instruments	-	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-	-
		<b>2,668</b>	<b>324</b>	<b>36</b>	<b>-</b>	<b>5</b>	<b>3,033</b>

The Group has access to financing facilities of RUR 10,143,000 thousand (USD 413,221 thousand) of which RUR 921,000 thousand (USD 37,521 thousand) remains unused at December 31, 2007. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

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