

Ratified
by the resolution of the Board
of OJSC "Magnit" of May 8, 2008,
minutes of 08.05.2008

2007 ANNUAL REPORT
OF THE OPEN JOINT-STOCK COMPANY
«MAGNIT»

185 Levanevskogo street, Krasnodar, 350002, Russian Federation

Chief Executive Officer _____ **С.Н.Галицкий**

**Person in charge of the chief accountant,
Chief Executive Officer of OJSC "Magnit",
Acting on the basis of
Order № 4 of 13.04.2006** _____ **С.Н.Галицкий**

seal.

KRASNODAR 2008

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1. KEY OPERATIONAL AND FINANCIAL HIGHLIGHTS

<i>Number of opened stores, NET</i>	304
<i>Total number of stores</i>	2,197
<i>Selling space, sq. m.</i>	651 658
<i>Number of customers</i>	765 160 000
<i>Net sales, million RUR</i>	94 035
<i>Net sales, million USD</i>	3 676,56
<i>Gross profit, million RUR</i>	18 672
<i>Gross profit, million USD</i>	730,04
<i>Gross margin, %</i>	19.9%
<i>EBITDAR, million RUR</i>	8,177
<i>EBITDAR, million USD</i>	319.69
<i>EBITDAR margin, %</i>	8.7%
<i>EBITDA, million RUR</i>	5,608
<i>EBITDA, million USD</i>	219.24
<i>EBITDA margin, %</i>	6.0%
<i>EBIT, million RUR</i>	4,235
<i>EBIT, million USD</i>	165.58
<i>EBIT margin, %</i>	4.5%
<i>Net profit, million RUR</i>	2,491
<i>Net profit, million USD</i>	97,39
<i>Net profit margin, %</i>	2.6%
<i>Capitalization as of 31.12.2007, million RUR</i>	82,831.8
<i>Capitalization as of 31.12.2007, million USD</i>	3,361.9

2. MISSION

“We work hard to increase the prosperity of our customers by minimizing their expenditure on quality consumer goods through:

- Efficient use of the Company's resources;**
- On-going improvements in technology;**
- Adequate compensation for our employees.”**

3. CHIEF EXECUTIVE OFFICER'S STATEMENT

Last year was an important year for our Company.

We opened our first hypermarket in October which marked the beginning of the active stage of the development of a new format for us.

Financial and operational results of the past year confirmed the correctness of the chosen development strategy and we hope they assured our shareholders of the fact that the Company always realizes its plans.

Organic development

"Magnit" retail chain is Russia's leading retailer in terms of number of stores and customers at the end of 2007.

In the medium-term outlook we are going to keep the expansion rates: we plan to open not less than 300 "convenience stores" this year and up to 250 annually in the next 2-3 years.

Special attention will be made to increase the share of owned stores: up to the half of the new retail outlets will be located on the constructed or purchased by the Company premises.

Business efficiency improvement

Reduction of logistics costs, improvement of the purchasing conditions and increase of the share of private label products as a percent of total sales are strategic directions of the company's profitability growth.

Construction and launch of the new distribution centers as well as the increase of the fleet to 1,200 vehicles will enable us in the nearest term to achieve the target of the share of products delivered to the stores and processed by the in-house logistics system.

Opening new stores and strengthening our position on the operational territory we plan to significantly improve purchasing conditions primarily through the local suppliers.

Multi-format model

Implementation of the expansion to the new format for us – a hypermarket format – was not simple and easy for the Company. Real-life experience of operation of the first opened projects assured us of the accuracy of our assumptions and made insignificant corrections into the tactical objectives for this year.

General trends of the market development on the back of growing income of our customers, evolutionary experience of European retail and low share of modern formats in the total volume of Russian retail assure us of the forthcoming efficiency of the new development direction.

4. INFORMATION ON THE PERSON IN THE POSITION OF A SOLE EXECUTIVE BODY

As of April 13, 2006 Sergey Galitskiy is elected a Chief Executive Officer by the resolution of the Board of directors of April 12, 2006.

Biographical information of the person in the position of a sole executive body:

Name: *Sergey Galitskiy*

Date of birth: *14.08.1967*

Education: *Mr. Galitskiy graduated from Kuban State University with a degree in Economics in 1992*

Positions occupied in the Company and other companies in the last five years including plural offices:

1) Period: *25.04.1996 – 27.06.2006.*

Organization: *CJSC "Tander".*

Position: *CEO;*

2) Period: *28.06.2002 – 18.04.2006.*

Organization: *CJSC "Tander".*

Position: *member of the Board;*

3) Period: *01.04.2004 – present day.*

Organization: *OJSC "Magnit".*

Position: *member of the Board;*

4) Period: *13.04.2006 – present day.*

Organization: *OJSC "Magnit".*

Position: *CEO*

Stockholding of CEO in the Company's share capital: *51.00 %.*

Ordinary shares, owned by CEO: *51.00 %.*

Information on transactions of acquisition/alienation of the Company's shares, made by the person in the position of a sole executive body during the reporting period:

During the reporting period no transactions of acquisition/alienation of the Company's shares were made.

CEO REMUNIRATION CRITERIA AND AMOUNT OF CEO REMUNERATION (REFUND OF CHARGES) PAID ACCORDING TO THE RESULTS ACHIEVED IN THE FINANCIAL YEAR

Under Clause 7 of Regulations “On the chief executive officer of OJSC “Magnit”, ratified by the resolution of the annual general shareholders’ meeting of 28.01.2008 (minutes of meeting of 04.02.2008 and previous editions), the wage rate and other payments set upon CEO are determined by the labor contract agreed with CEO.

Remuneration of CEO of OJSC “Magnit” in 2007 amounted to 960,000.00 Rub.

5. INFORMATION ON THE BOARD MEMBERS

Andrey Arutyunyan – the Chairman of the Board

Date of birth: **12.01.1969**.

Education: *a graduate of Kuban State University with a degree in Economics, 1991.*

Positions occupied in the Company and other companies in the last five years including plural offices:

1) Period: **01.03.2002 – 30.09.2004**.

Organization: *LLC “Health Centre “Biryuza”.*

Position: *Deputy Director for commercial issues;*

2) Period: **28.06.2002 – 18.04.2006**.

Organization: *CJSC “Tander”.*

Position: *Directors’ Board member;*

3) Period: **01.12.2003 – present day**.

Organization: *OJSC “Magnit”.*

Position: *first Deputy CEO;*

4) Period: **01.04.2004 – present day**.

Organization: *OJSC “Magnit”.*

Position: *the Chairman of the Board;*

5) Period: **01.10.2004 – present day**.

Organization: *CJSC “Tander”.*

Position: *Director of Development department;*

6) Period: **30.01.2006 – present day**.

Organization: *LLC “Magnit – Nizhniy Novgorod”.*

Position: *Chairman of Directors’ Board”.*

Shareholding of the person in the Company’s charter capital: **0.2593 %**.

Ordinary shares, owned by the person: **0.2593%**.

Information on transactions of acquisition/alienation of the Company’s shares made by the Board member during the reporting period:

During the reporting period no transactions of acquisition/alienation of the Company’s shares were made.

Vladimir Gordeychuk – Deputy Chairman of the Board of Directors

Date of birth – **15.08.1961**.

Education – *a graduate of Novorossisk Engineering Marine School, 1998, navigator.*

Positions occupied in the Company and other companies in the last five years including plural offices:

1) Period: **01.04.1999 – 27.06.2006**.

Organization: *CJSC “Tander”.*

Position: *Director*;

2) Period: *28.06.2002 – 18.04.2006*.

Organization: *CJSC "Tander"*.

Position: *member of the Board*;

3) Period: *10.11.2003 – 12.04.2006*.

Organization: *OJSC "Magnit"*.

Position: *CEO*;

4) Period: *01.04.2004 – present day*.

Organization: *OJSC "Magnit"*.

Position: *member of the Board*;

5) Period: *30.01.2006 – present day*.

Organization: *LLC "Magnit – Nizhniy Novgorod"*.

Position: *CEO*;

6) Period: *13.04.2006 – present day*.

Organization: *OJSC "Magnit"*.

Position: *second Deputy CEO*;

7) Period: *28.06.2006 – present day*.

Organization: *CJSC "Tander"*.

Position: *CEO*.

8) Period: *20.12.2006 – present day*.

Organization: *LLC "Tandem"*.

Position: *Chairman of the Board*.

Shareholding of the person in the Company's charter capital: **4.1654 %**.

Ordinary shares, owned by the person: **4.1654 %**.

Information on transactions of acquisition/alienation of the Company's shares made by the Board member during the reporting period:

<i>№</i>	<i>Date of operation</i>	<i>Operation</i>	<i>Number of shares</i>	<i>Type of shares</i>
1	06.12.2007	Alienation of securities (purchase and sale)	115,000	Ordinary nominal uncertified shares

Sergey Galitskiy

Date of birth: **14.08.1967**.

Education: *a graduate of Kuban State University with a degree in Economics in 1992*.

Positions occupied in the Company and other companies in the last five years including plural offices:

1) Period: **25.04.1996 – 27.06.2006**.
Organization: *CJSC "Tander"*.
Position: *CEO*.

2) Period: **28.06.2002 – 18.04.2006**.
Organization: *CJSC "Tander"*.
Position: *member of the Board*;

3) Period: **01.04.2004 – present day**.
Organization: *OJSC "Magnit"*.
Position: *member of the Board*;

4) Period: **13.04.2006 – present day**.
Organization: *OJSC "Magnit"*.
Position: *CEO*.

Shareholding of the person in the Company's charter capital: **51.00%**.
Ordinary shares, owned by the person: **51.00%**.

Information on transactions of acquisition/alienation of the Company's shares made by the Board member during the reporting period:

During the reporting period no transactions of acquisition/alienation of the Company's shares were made.

Alexander Prisyazhnyuk

Date of birth: **23.05.1972**.

Education: *a graduate of Kuban State University with a degree in Physics*.

Positions occupied in the Company and other companies in the last five years including plural offices:

1) Period: **01.11.2000 – present day**.
Organization: *CJSC "Tander"*.
Position: *CFO*;

2) Period: **28.06.2002 – 18.04.2006**.
Organization: *CJSC "Tander"*.
Position: *member of the Board*;

3) Period: **01.12.2003 – present day**.
Organization: *OJSC "Magnit"*.
Position: *CFO*;

4) Period: **01.04.2004 – present day**.
Organization: *OJSC "Magnit"*.
Position: *member of the Board*;

5) Period: **03.08.2005 – present day**.
Organization: *LLC "Magnit Finance"*.

Position: *CEO*;

6) Period: *30.01.2006 – present day*.

Organization: *LLC “Magnit – Nizhniy Novgorod”*.

Position: *member of the Board*;

7) Period: *29.11.2006 – present day*.

Organization: *CJSC “Digital Gallery”*.

Position: *member of the Board*.

Shareholding of the person in the Company’s charter capital: *0.75 %*.

Ordinary shares, owned by the person: *0.75 %*.

Information on transactions of acquisition/alienation of the Company’s shares made by the Board member during the reporting period:

During the reporting period no transactions of acquisition/alienation of the Company’s shares were made.

Alexander Chalikov

Date of birth: *20.06.1978*.

Education: *a graduate of Kuban State Agrarian University with a degree in Law, 2001*.

Positions occupied in the Company and other companies in the last five years including plural offices:

1) Period: *05.11.2001 – 19.05.2002*.

Organization: *OJSC “Company “Krasnodaragropromsnab”*.

Position: *senior legal advisor, legal department*;

2) Period: *20.05.2002 – 02.06.2002*.

Organization: *OJSC “Company “Krasnodaragropromsnab”*.

Position: *senior legal advisor, securities and property department*;

3) Period: *03.06.2002 – 11.08.2002*.

Organization: *OJSC “Company “Krasnodaragropromsnab”*.

Position: *Deputy Director, securities and property department*;

4) Period: *12.08.2002 – 09.07.2003*.

Organization: *OJSC “Company “Krasnodaragropromsnab”*.

Position: *Director, Securities and Property department*;

5) Period: *10.07.2003 – 07.10.2004*.

Organization: *OJSC “Company “Krasnodaragropromsnab”*.

Position: *Director, Legal department*;

6) Period: *08.10.2004 – 22.11.2007*.

Organization: *CJSC “Tander”*.

Position: *Director, Legal department*;

7) Period: *12.04.2006 – present day*.

Organization: *OJSC "Magnit"*.
Position: *member of the Board*;

8) Period: *20.12.2006 – 17.09.2007*.
Organization: *LLC "Tandem"*.
Position: *member of the Board*.

Shareholding of the person in the Company's charter capital: *no share*
Ordinary shares, owned by the person: *no share*

Information on transactions of acquisition/alienation of the Company's shares made by the Board member during the reporting period:

During the reporting period no transactions of acquisition/alienation of the Company's shares were made.

Dmitriy Chenikov – the Secretary of the Board

Date of birth: *08.09.1965*.

Education: *Krasnodar Polytechnic Institute, engineer/constructor/technologist, candidate of technical sciences.*

Positions occupied in the Company and other companies during last five years including plural offices:

1) Period: *22.01.2001 – 31.08.2007*.
Organization: *CJSC "Tander"*.
Position: *Director, Discounter format development*;

2) Period: *12.04.2006 – present day*.
Organization: *OJSC "Magnit"*.
Position: *member of the Board*.

3) Period: *01.09.2007 – present day*.
Organization: *CJSC "Tander"*.
Position: *Regional Director*.

4) Period: *18.09.2007 – present day*.
Organization: *LLC "Tandem"*.
Position: *member of the Board*.

Shareholding of the person in the Company's charter capital: *0.3473 %*.
Ordinary shares, owned by the person: *0.3473 %*.

Information on transactions of acquisition/alienation of the Company's shares made by the Board member during the reporting period:

During the reporting period no transactions of acquisition/alienation of the Company's shares were made.

Westman Johan Mattias

Date of birth: *05.02.1966*.

Education: *Stockholm School of Economics, 1992, master's degree in Business Administration; Linguistic School of Sweden Armed Forces, 1997.*

Positions occupied in the Company and other companies in the last five years including plural offices:

1) Period: *1996 – present day.*

Organization: *Prosperity Capital Management.*

Position: *CEO;*

2) Period: *2004 – present day.*

Organization: *Prosperity Capital Management (UK) Ltd.*

Position: *CEO;*

3) Period: *23.05.2002 – 15.05.2003.*

Organization: *OJSC “Lenenergo”.*

Position: *member of Board;*

4) Period: *12.04.2006 – present day.*

Organization: *OJSC “Magnit”.*

Position: *member of the Board.*

Shareholding of the person in the Company's charter capital: *no share*

Ordinary shares, owned by the person: *no share*

Information on transactions of acquisition/alienation of the Company's shares made by the Board member during the reporting period:

During the reporting period no transactions of acquisition/alienation of the Company's shares were made.

REMUNIRATION CRITERIA AND AMOUNT OF REMUNERATION (REFUND OF CHARGES) OF EVERY MEMBER OF COMPANY'S BOARD OF DIRECTORS PAID ACCORDING TO THE RESULTS ACHIEVED IN THE REPORTING YEAR

According to Regulations “On OJSC “Magnit” Board of Directors”, ratified by the resolution of the annual General Shareholders' meeting of 08.04.2006 (minutes of meeting of 12.04.2006), remuneration of the Board members is paid upon the resolution of general shareholders' meeting in the form of remuneration for participation in the board operation and remuneration for the achieved results.

Remuneration for participation in the board operation amounts to 120,000 (one hundred twenty thousand) rubles per month.

Remuneration to the independent director for participation in the board operation amounts to 30,000 (thirty thousand) USD per year, additionally

- 2 000 (two thousand) US dollars for participation by personal presence in each ‘in praesentia’ meeting of the board,
- 500 (hundred) US dollars for participation by directing the written opinion for each ‘in praesentia’ meeting of the board, or for participation in each ‘in absentia’ meeting.

Year-end bonus, based on the operation results, is also paid to the members of the board in addition to the remuneration. Fixed amount of year-end bonus is paid to the members of the board after approval of appropriate annual financial report by the general shareholders' meeting of the Company.

At the time of drawing up the present Annual report the remuneration of the Board members for the results achieved in the reporting year has not been paid.

6. REPORT OF THE BOARD ON 2007 OPERATIONS

The structure of the Board of directors (elected at the annual shareholders' meeting of 28.06.2007, minutes of 10.07.2007):

<i>No</i>	<i>Name of the Board member</i>	<i>Date of birth</i>
1	Andrey Arutyunyan	12.01.1969
2	Sergey Galitskiy	14.08.1967
3	Vladimir Gordeychuk	15.08.1961
4	Alexandr Prisyazhnyuk	23.05.1972
5	Alexandr Chalikov	20.06.1978
6	Dmitriy Chenikov	08.09.1965
7	Westman Johan Mattias	05.02.1966

Westman Johan Mattias (Director of the Representative Office of "Prosperity Capital Management (RF) Ltd.") is the independent member of the Board of directors.

By the unanimous resolution at the first meeting of 24.10.2007, Andrey Arutyunyan was elected the Chairman of the Board of directors, Vladimir Gordeychuk was appointed a Deputy Chairman and Dmitriy Chenikov was elected a Secretary of the Board.

The Board of directors of the Company operated in accordance with Law regulations "Of joint-stock companies" and the Charter of the Company.

According to the provisions of the corporate documents, during the reporting period the following committees of the Board operated to provide its efficiency and prepare the most important issues attributed to the competence of the Board of directors:

HR and Remuneration Committee of the Board of directors:

<i>No</i>	<i>Name of the Board member</i>	<i>Position occupied in the committee</i>
1	Vladimir Gordeychuk	Chairman of the committee
2	Andrey Arutyunyan	member of the committee
3	Dmitriy Chenikov	member of the committee

Audit Committee of the Board of directors:

<i>No</i>	<i>Name of the Board of directors member</i>	<i>Position occupied in the committee</i>
1	Westman Johan Mattias	Chairman of the committee
2	Sergey Galitskiy	member of the committee
3	Alexandr Prisyazhnyuk	member of the committee

During 2007 the Board of directors held 9 meetings and examined 38 issues. All the meetings of the Board of directors were held in the form of joint presence.

Main issues considered by the Board of directors in 2007:

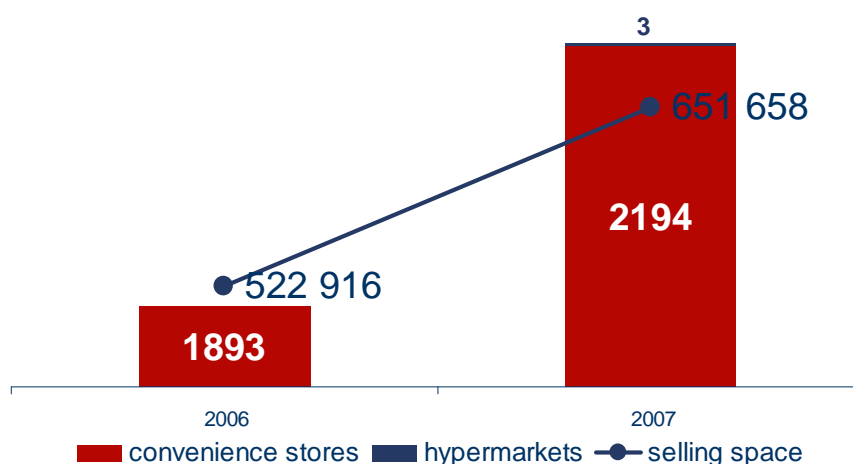
<i>Date of meeting</i>	<i>Considered issues</i>
04.02.2007	Suggestions on the issues to be placed on the agenda of the annual shareholders' meeting were viewed
04.02.2007	The nominees for election into the Board of directors were considered and put in the list at the annual shareholders' meeting
04.02.2007	The nominees for election into the Audit Committee were considered and put in the list at the annual shareholders' meeting
04.02.2007	The nominees for election into the Counting Board were considered and put in the list at the annual shareholders' meeting
04.02.2007	The nominees for the auditor position were considered and put in the list at the annual shareholders' meeting
21.05.2007	The annual report of OJSC "Magnit" was preliminary approved
21.05.2007	Recommendations to the General Shareholders Meeting regarding profit distribution, including distribution according to the amount of dividend of the OJSC "Magnit" shares and payment procedure, and losses of the Company based on the results of financial year were approved
21.05.2007	The decision to hold annual general shareholders' meeting was adopted
24.10.2007	The Chairman of the Board of directors, the Deputy Chairman of the Board of directors and the Secretary of the Board of OJSC "Magnit" were elected
24.10.2007	The members of the Audit Committee of the Board of directors of OJSC "Magnit" and its Chairman were elected
24.10.2007	The members of the HR and Remuneration Committee of the Board of directors of OJSC "Magnit" and its Chairman were elected
24.10.2007	The remuneration to the Company's auditor was defined
24.10.2007	The candidates of investment advisors of OJSC "Magnit" for effective investment policy-making process were appointed
24.12.2007	The decision to hold the Extraordinary General Shareholders' Meeting was adopted
24.12.2007	The recommended transaction price for the Annual General Shareholders' Meeting of OJSC "Magnit" to make a resolution on approval of the large-scale interested party transaction was determined
24.12.2007	Repurchase price of shares belonging to the shareholders was defined
24.12.2007	The Regulations on the in-house audit of the financial and economic activity of OJSC "Magnit" were approved as amended
24.12.2007	The personnel and operational structure of the OJSC "Magnit" internal audit service were determined, the candidate for the position of the service manager was approved
29.12.2007	The supplementary agreement to the contract with the person in the position of sole executive body of the Company is ratified

Besides, the questions in the reporting period concerning the definition of the OJSC “Magnit” representative position under the realization of suffrage over the Company’s stocks and shares owned in other organizations (economic companies) were examined by the Board of directors of OJSC “Magnit” in accordance with the Clause 14.2 of the Charter. Thus, the meetings with the examined issues concerning the definition of the OJSC “Magnit” representative position under the realization of suffrage over the Company’s owned shares of CJSC “Tander”, equity stakes of LLC “Magnit Finance” and LLC “Magnit Ninzhniy Novgorod”, were held in January, February, March, April, May, October, and December of the year 2007.

As a result of 2007 operations the management of the Company achieved the following results:

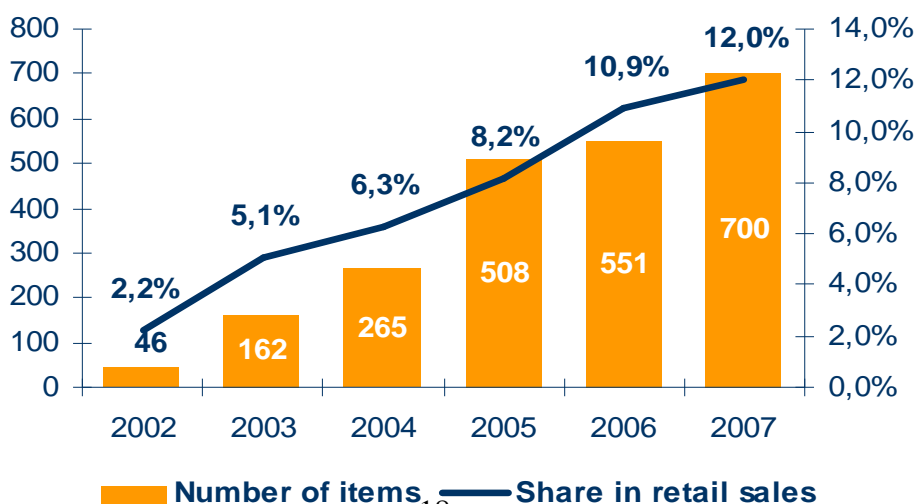
1. Net sales of the Company increased from 2,505 million USD to 3,677 million USD by 46.8%.

2. Number of the Company’s stores increased from 1,893 in 2006 to 2,194 “convenience stores” and 3 hypermarkets in 2007, total selling space of the stores increased from 522.9 thousand sq. m. to 615.7 thousand sq. m. correspondingly.



3. Number of customers increased from 640.2 million in 2006 to 765.2 million in 2007.

4. In 2007 the Company continued the development of private label. As of December 31, 2007 private label products were presented by over 700 SKUs with 12% share of retail revenue.



5. In 2007 the Company opened distribution centers in Bataysk and Chelyabinsk as well as the second phase of Ivanovo distribution center which will process non-food products for hypermarkets. Total space of 8 distributions centers as of December 31, 2007 amounted to 138 thousand sq. m.

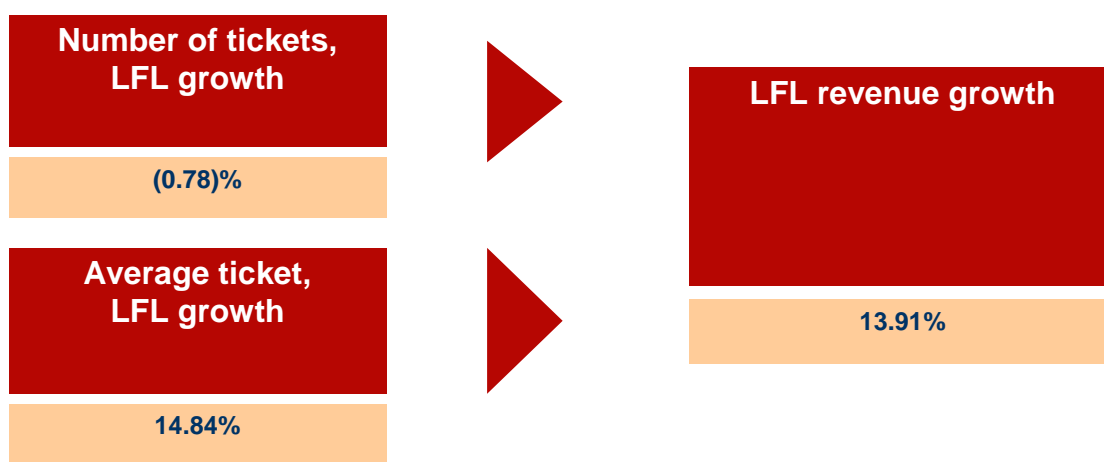
6. During the reporting year the fleet of the Company increased by more than 70 vehicles and amounted to 802 own trucks which resulted in the considerable reduction of transportation costs.

7. In 2007 the Company increased the share of products processed via its distribution centers to 71% which is one of the gross margin drivers.

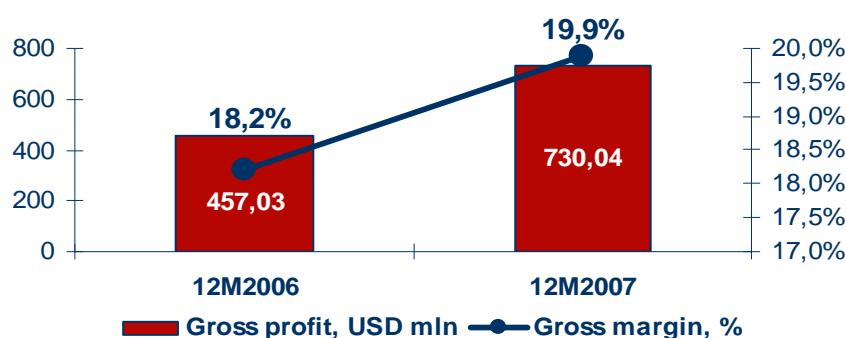
8. The Company was actively working with its personnel increasing their loyalty and developing corporate culture. As of December 31, 2007 the Company had 48,194 employees out of which 35,726 are in-store personnel, 6,679 people engaged in distribution, 4,634 people in regional branches and 1,155 employees of Head Office.

9. Effective work with our customers and development of our marketing program enabled us to achieve the following results:

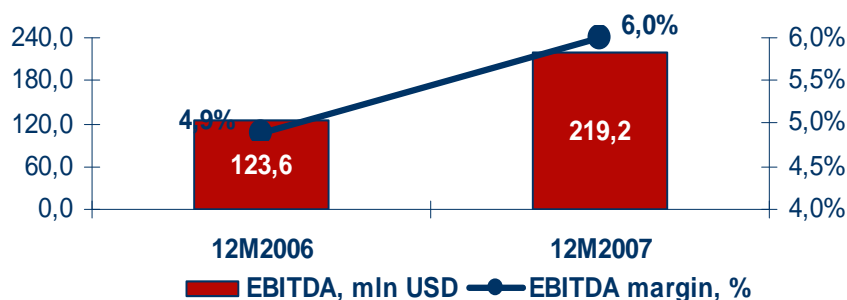
13.91% LFL revenue growth of 2007 to 2006 in ruble terms was driven principally by 14.84% average ticket growth.



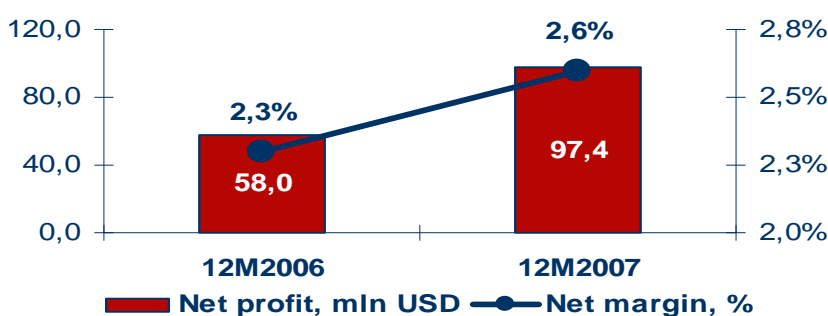
Gross margin of the Company increased from 18.2% in 2006 to 19.9% in 2007, gross profit increased from 457.03 million USD to 730.04 million USD correspondingly due to the better purchasing terms and in-house logistics system.



EBITDA increased by 77.40% from 123.59 million USD in 2006 to 219.24 million USD in 2007.



Net profit of the Company increased by 68.02% and amounted to 97.39 million USD in 2007 vs. 57.97 million USD in 2006.



On the whole, the Board of Directors of the Company considers achieved financial and economic results positive and fitting in with 2007 target plans.

According to the carried out work the Board of the Company recommends to the annual general shareholders' meeting to approve the activity of the Company's management bodies during 2007 and to ratify 2007 annual report submitted for agenda of the meeting.

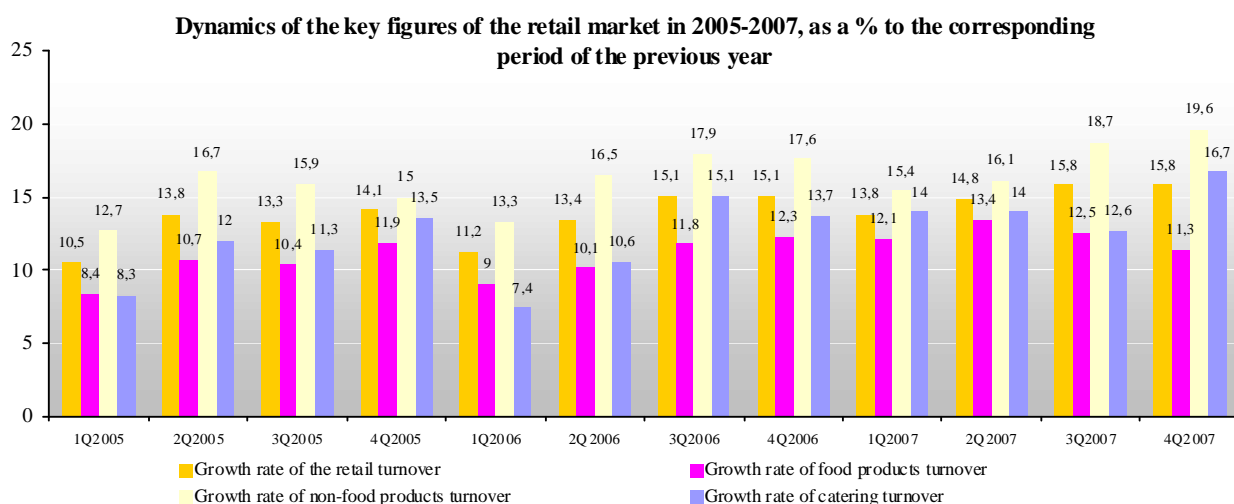
7. PRIMARY 2007 CORPORATE EVENTS

January	The Board of Directors determines position of OJSC "Magnit" representative upon exercise of voting right on the share of the Company in the charter capital of LLC "Magnit-Finance". The decision is made to place bonds, Prospectus and Decision of bonds issue is ratified.
	Extraordinary general meeting of OJSC "Magnit" shareholders makes the decision to determine the price and approve major transaction of pledging for the purposes of bond issue of LLC "Magnit-Finance" in the amount of 5,000,000 bonds with the nominal value of 1,000 rubles each.
May	CJSC "Tander" branch in Izhevsk is established.
June	Annual general shareholders' meeting ratifies new editions of the Charter. Regulations on the general shareholders' meeting, Regulations on the sole executive body (CEO), forms new membership of the Board including one independent director, ratifies the auditors of the Company, approves rent agreement for the real estate with CJSC "Tander" being a lease holder.
October	Board of directors ratifies candidates of the investment consultants to carry out active investment policy of the Company: Morgan Stanley & Co. International plc, CJSC «United Financial group» - Deutsche UFG.
	The Board of directors forms the committees of the Board, appoints the chairman, deputy chairman and the secretary of the Board.
	CJSC «Tander» in Novgorod Velikiy is established.
December	The agreement on inclusion and sustention of the securities in the Quotation list of the Close joint-stock company "MICEX stock exchange", OJSC "Magnit" shares are admitted to tradings in the Quotation list "B" of CJSC "MICEX SE".
	Agreement for listing services is made with OJSC "Russian Trading System" stock exchange", OJSC "Magnit" shares are admitted to tradings in the Quotation list "B" of OJSC "RTS SE".
	Board of directors ratifies new edition of the Regulations on internal control over financial and economic activity, determines the number of members and organizational structure of internal audit department, ratifies the candidate for the head of the department.
	Board of Directors preliminary approves the Underwriting Agreement and the Depositary agreement as well as other transactions provided by the above agreements, issues of approval are proposed to the extraordinary shareholders' meeting appointed on 28.01.2008.
	The decision of CJSC "Tander"'s entry to the Association of the Retail Companies.
	CJSC "Tander" branch in Tyumen is established.

8. POSITION OF THE COMPANY IN THE FIELD

RUSSIAN MARKET

Retail turnover in 2007 amounted to 10,757.8 billion rubles which is by 15.2% higher than in 2006 in terms of mass of commodities. At that growth rates of add value in “wholesale and retail” sector amounted to 12% which is a lot higher than the growth rates of GDP (8.1%).



Source: Infoline

In 2007 rates of retail turnover continued to grow compared with 2006 which was due to:

- insignificant slowdown of population income growth on the back of high dynamics of the real wages as well as the decrease of the financial funds aimed by the population at savings;
- considerable increase of consumer credit financing;

- retaining of high growth rates of import due to expansion of the consumer demand and strengthening of the real ruble rate due to increase of the gold holdings and retaining of significant surplus through oil price growth to 100 USD per barrel.



Source: Infoline

Retail turnover dynamics in 2006-2007

Period	Turnover, billion rub.	As a % of the previous year
2006	8693.4	113.9
2007	10757.8	115.2

Источник: данные ФСТС

High growth rates of the retail turnover in Russia maintain despite the formation of the complex of negative factors in the economic development and consumer markets:

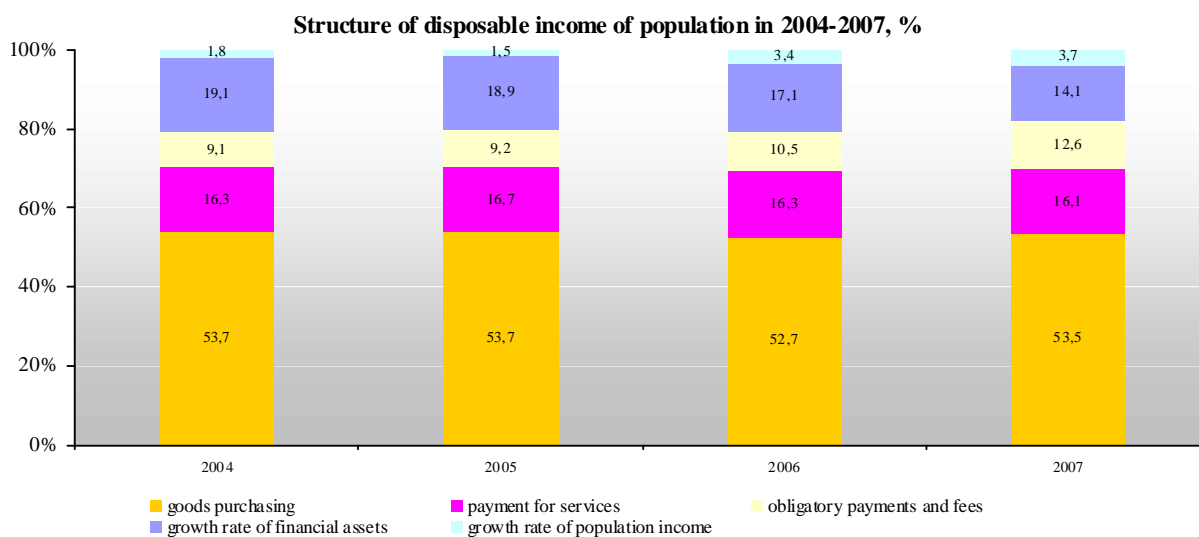
increase of inflation rates due to nonmonetary factors, out of which the most important is the growth of the world prices on food as well as costs inflation on the food markets of all elements of the chain “producer – distributor – retailer”;

active interference of the federal and local authorities in the sphere of chain retail development regulations by means of exercise of the complex of measures limiting trading margins and producers’ prices on some groups of socially important products (agreement concluded on the federal level with retail chains and foodstuffs producers has come into effect in 2007 and has been prolonged until April 30, 2008);

negative for disadvantaged population groups inflation structure (priority growth rates of prices on fast-moving consumer goods – dairy, bread, sunflower oil) because of increased differentiation of living standards between population groups;

decrease of cash surplus of trade balance of Russia due to priority growth rates of import on the back of the modest export rates and retaining of prevailing positions of fuel, energy and metal products in its structure.

Key factor stimulating the growth of retail turnover in Russia is still the growth of the real population income which increased by 10.4% in 2007 compared with 2006 (13.3% in 2006) and the actual earnings increased by 16.2% (13.4% in 2006).



Source: Infoline

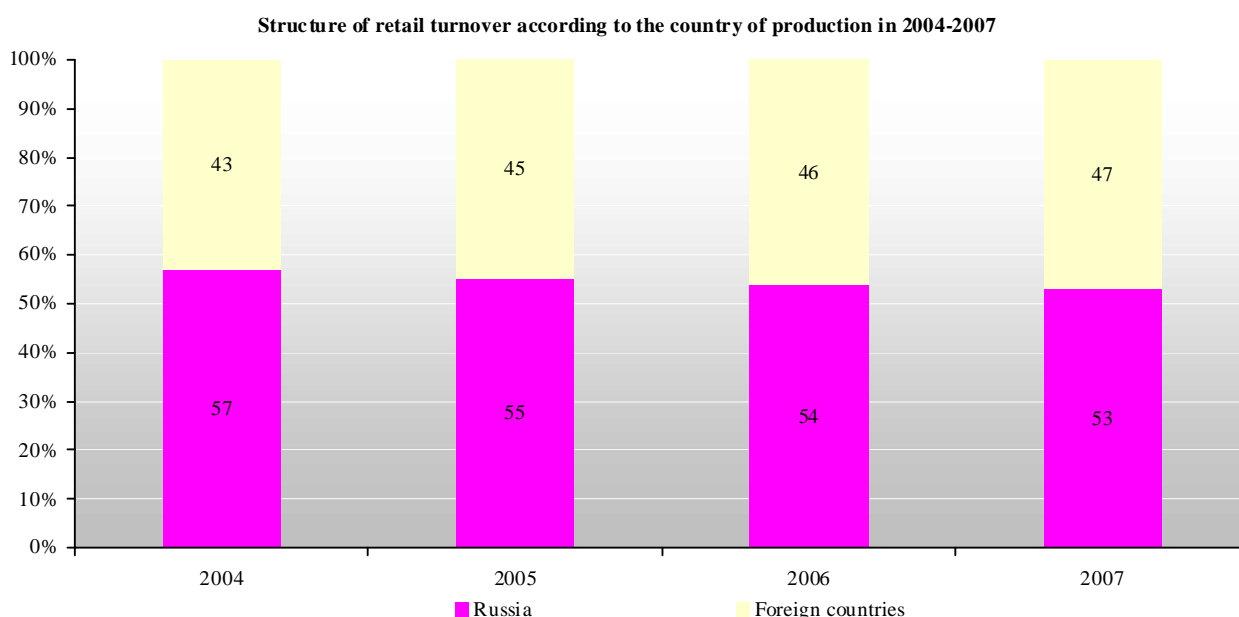
Moreover, in Russia there is a growth trend of consumer expenses in the structure of disposable cash income: in 2007 nominal cash income of population increased by 22.4% compared to 2006, expenses for purchase of goods and payment for services increased by 23.5% and savings by 0.5%. As a result the share of consumer expenses in the disposable income structure amounted to 69.6% and goods purchasing expenses amounted to 53%.

Please note that in the economic development in Russia there is an increase of structural disproportions which in the medium-term outlook may lead to the reduction economic growth rates and slowdown of consumer markets development:

lack of qualified man power and corresponding disbalance of growth rates of actual earnings and labour capacity. Thus, in 2007 the gap between the rates of actual earnings and labour capacity amounted to 10.6% compared to 6.3% in 2006;

increase of import products in the Russian consumer market: in 2007 growth rates of physical volume of production output by Russian production units of consumer sector to meet the needs of the internal market amounted to 3.5% which is nearly 9 times lower than the rates of import volume. The share of import in GDP increased from 16.7% in 2006 to 17.5% in 2007 and the share of export in GDP reduced from 30.8% in 2006 to 27.4%. At that the deficit of trade balance for the group of food and non-food consumer products increases.

As a result of the above disproportions in the development of domestic production of consumer goods in 2004-2007 there was a decline of the share of domestic products in the retail market from 57% to 53%.

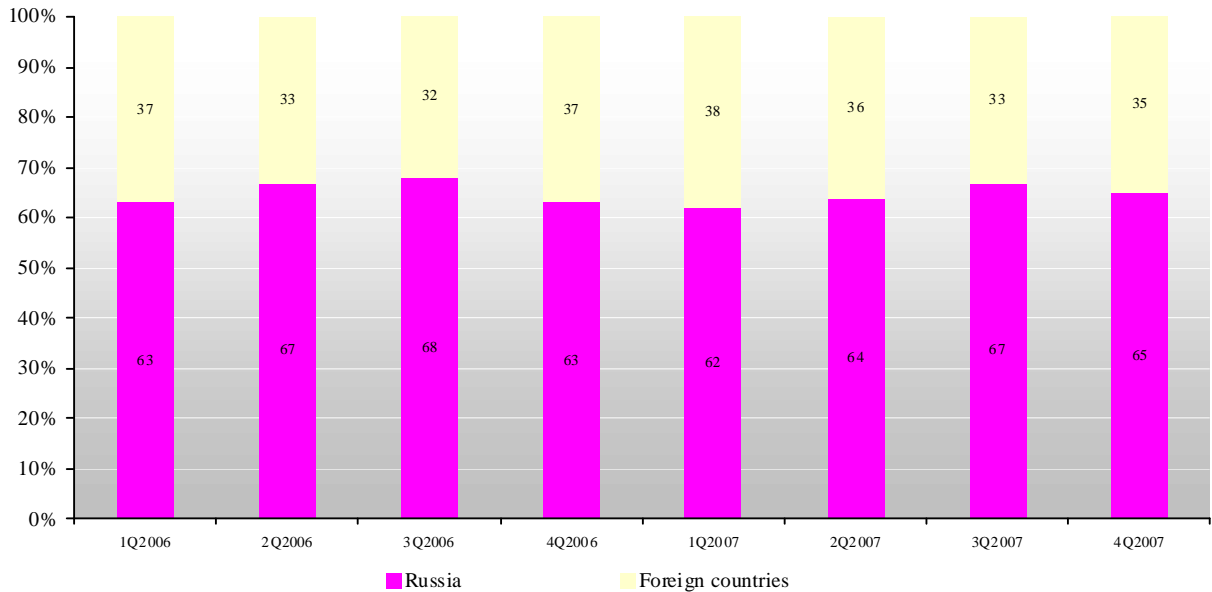


Source: Infoline

In 2007 growth rates of agricultural products output were lower compared with 2006 (3.3% in 2007 compared to 3.6% in 2006), at the time when the output of industrial products by food enterprisers on the contrary exceeded 2006 (6.1% and 5.4%). In some field the dynamics was more positive: meat and meat products production increased by 9.2%, vegetable and tallow oil production increased by 8.6% and production of soft drinks - by 13.8%. Import of food products grows faster: in 2007 it increased by 28.6% to 26.1 billion USD which conditioned the growth of import products in the retail turnover.

The share of import products in the Russian food retail market in 2007 compared with the previous year has been steadily growing during 1Q-3Q and the reduction in 4Q was not because the trend has changed but due to seasonal factor.

Structure of food retail turnover according to the country of producers in 2006-2007



Source: Infoline

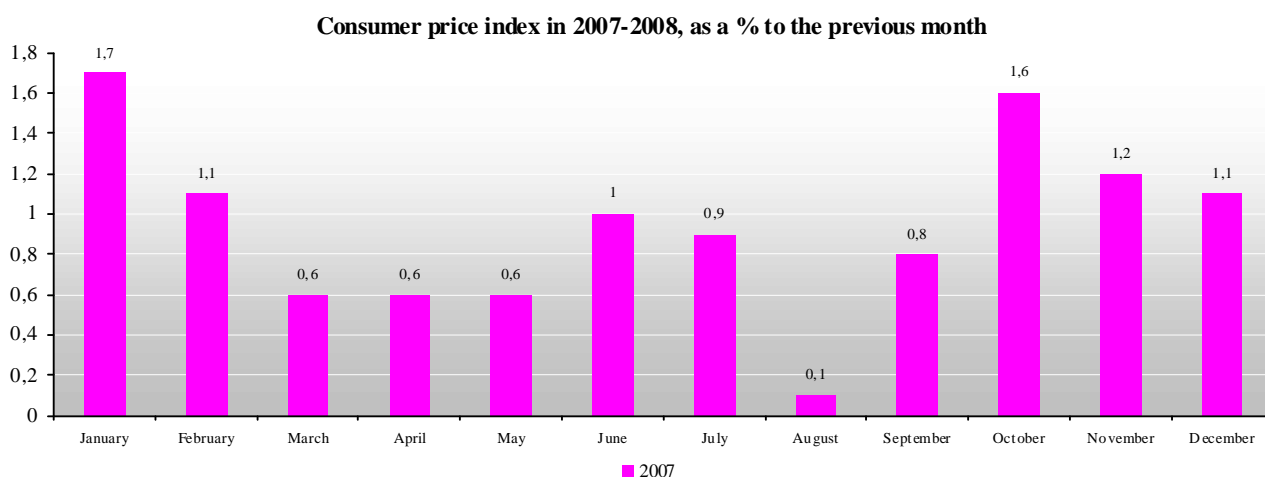
FOOD INFLATION

In 2007 Russia faced the growth of prices on food products in the internal market due to price “shocks” on the world market of food products conditioned by the expansion of use of agricultural products as a source of bioethanol production, increase of demand for food products in the emerging markets as well as high level of Russia’s dependence on import of food products and low level agriculture efficiency. Growth rates of prices in 2007 on several categories of food products exceeded 30%: butter – by 40.3%, sunflower oil - by 52.3%, milk and milk products – by 30.4%. At that the prices on bread and flour products increased by 22.4% despite strict administrative regulation.

Measures of Russian Government and local authorities aimed at stabilization of internal prices for food products were characterized by comparatively low efficiency and focus on strict measures of the customs and administrative regulations:

Freezing of retail prices on the limited food products which is appeared to be not effective enough measure due to the increase of the trading margins on the products which are not subject to regulation and deficit.

Increase of the export fees and the reduction (cancellation) of import fees for some food products and agricultural raw materials led to destabilization of operations of Russian exporters of agricultural products and did not lead to significant import growth which could have increased the level of satiety of the internal market and have an impact on retail prices towards reduction.



Source: Infoline

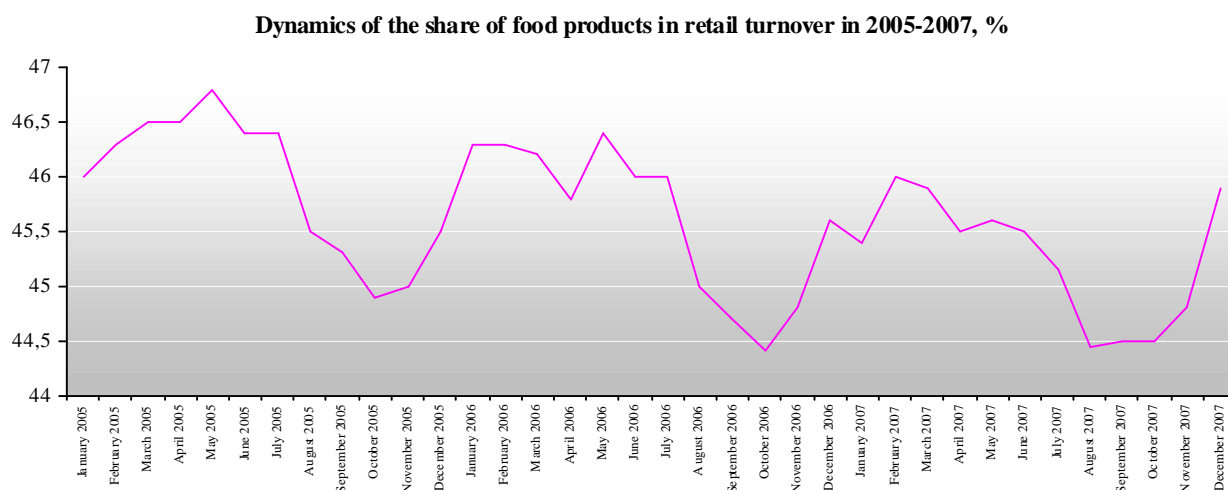
THE STRUCTURE OF RETAIL TURNOVER BY PRODUCT TYPES

In 2007 reduction of the share of the food products in the retail turnover gathered pace due to keeping ahead growth rates of prices on food products and change of the structure of Russian population's consumption.

The structure of retail turnover in 2002-2007, billion rub.

Index	2002	2003	2004	2005	2006	2007
Retail turnover	3765	4529	5642	7038	8690	10757,8
Food products	1754	2092	2578	3216	3945	4869,7
Non-food products	2011	2437	3064	3822	4745	5888,1
Share of food products, %	46,6	46,2	45,7	45,7	45,4	45,3
Share of non-food products, %	53,4	53,8	54,3	54,3	54,6	54,7

Source: Federal State Statistic Service



Source: Infoline

Thus, growth rates of non-food products turnover currently exceeds the corresponding figures of food products thrice while within the last five years this figure has never passed 1.5. This speaks of the trend of the change in the consumption structure in Russia. In the structure of consumer expenses of households there is a trend of the further reduction of the food purchasing expenses alongside with the growth of non-food purchasing expenses and payment for services. The share of food purchasing expenses in Russia is still considerably higher than it

is in mature markets: in the structure of final consumption food amounts to 23% while in the USA it is 6.4%, Great Britain – 9%, Germany – 11.4%, France – 13.7%. Food purchasing expenses of population groups with low income amount to 70% of the total product purchasing, those with high income spend on food about 26%.

Dynamics of retail turnover in mass of commodities in 2003-2007, %

Index	2004 to 2003	2005 to 2004	2006 to 2005	2007 to 2006
Retail turnover	113,3	112,8	113,9	115,2
Food products	109,8	110,6	110,9	112,3
Non-food products	114,3	113,4	116,5	117,6

Source: Federal State Statistics Service

In 2007 within the group of food products the most significant growth compared to 2006 comes to retail sales of sugar (by 24.7%), meat and poultry, sausage goods, confectionary, fruit and berries.

Growth rates of food retail sales in 2005-2007 in physical terms, %

Index	2005	2006	2007
Food products	10,6	10,9	12,3
Meat and poultry	7,0	9,7	13,2
Sausage goods	7,8	7,6	14,2
Fish food consumable goods	3,2	12,6	12,9
Vegetable oils	12,7	6,9	10,2
Fat cheeses	10,2	4,0	9,1
Sugar	9,1	-0,8	24,7
Confectionary	8,2	4,9	14,9
Potatoes	5,1	0,7	10,3
Vegetables	6,0	9,2	7,9
Fruits, berries, grapes	12,7	10,9	13,4

Source: Federal State Statistics Service, Russia's Ministry for Economic Development and Trade

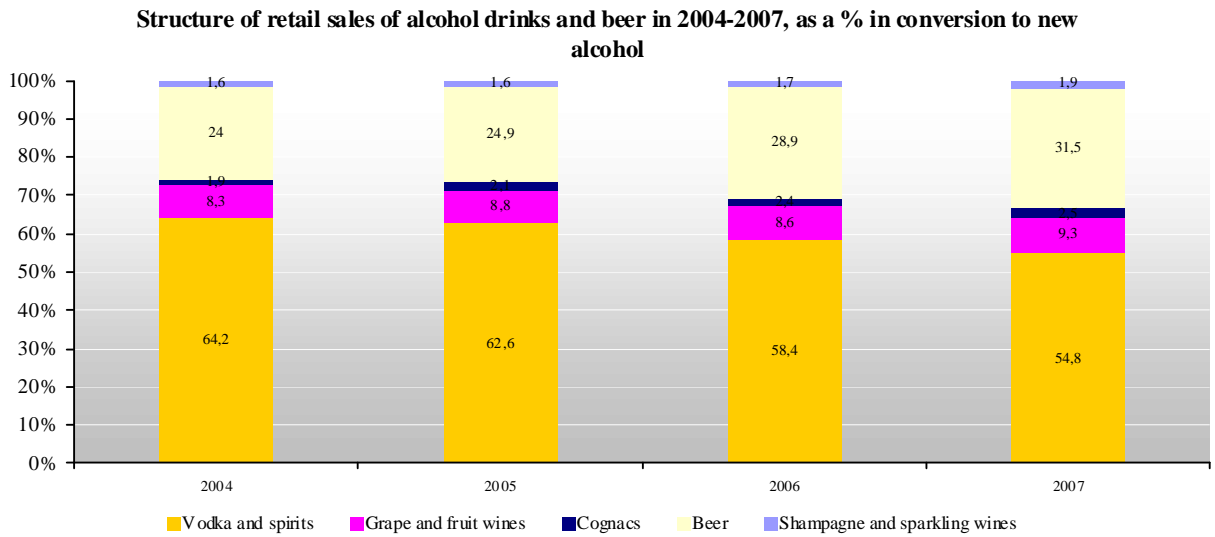
Growth rates of non-food retail sales in 2005-2007 in physical terms, %

Index	2005	2006	2007
Non-food products	13,4	16,5	17,6
Detergents	2,5	12,1	13,7
Cosmetics	17,4	15,3	14,8
TVs	31,9	8,5	29,6
Videotape recorder	31,2	25,5	26,2
Computers	28,4	50,0	30,5
Household refrigerator	7,3	9,0	18,5
Vacuum cleaner	15,9	10,8	16,5
Washing machines	15,8	7,2	23,3
Cars	44,9	7,3	28,4

Source: Federal State Statistics Service, Russia's Ministry for Economic Development and Trade

In 2007 there was an alcohol sales increase: realization of alcohol drinks and beer increased by 5.7% to 142.7 million USD (in conversion to net alcohol) while in 2006 there was a

reduction by 3.2%. Increase of volumes was due to the growth of sales of grape and fruit wines by 13.9% (in 2006 reduction of 4.8%), cognac by 12.3%, (in 2006 growth by 7.7%), champagne and sparkling wines by 15.2% (in 2006 growth by 2.1%), beer by 15.2% (in 2006 growth by 12.4%) as well as slowdown of rates of vodka and spirits sales to -0.8% compared to -9.7% in 2006.



Source: Infoline

STRUCTURE OF RETAIL SALES OF PACKAGED PRODUCTS

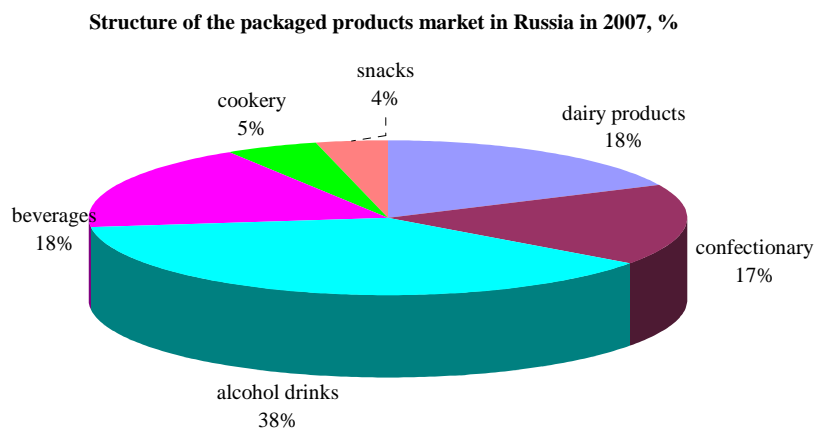
Most important changes in the consumption structure of the packaged products in Russia in 2007 were the following:

- Growth of consumption of instant food products and ready-made meals as well as mixed vegetables and fruits;

- Growth of consumption of innovative products and group of healthy products;

- Growth of consumption of more expensive and of a better quality alcohol drinks and the reduction of vodka and spirits share.

This is due to such customers' food shopping motives as convenience of consumption, innovation and healthiness. Thus despite much lower living standards in comparison with the European countries and the USA Russia demonstrates the same trends of higher interest to the products aimed at preservation of youth and health.



Source: Infoline

Moreover, increase of the pace of life and involving of more women in labor activity result in the growth of consumption of instant food products and ready made meals. According to the audit of the retail carried out by AC Nielsen in 2007 the structure of retail turnover of packaged food products broken down such categories as “dairy products”, “confectionary” “alcohol drinks and beverages”, “snacks”, “cookery products” is characterized by a series of features which are thoroughly viewed below.

Growth rates of the main products groups in Russia in 2007, in monetary terms

Products category/subcategory	2007 growth rates, %
Alcohol products	20
Beer	31
Vodka	6
Beverages, tea and coffee	11
Kvass (whole sour)	60
Sparkling soft drinks	18
Juices	14
Confectionary	9
Chocolate	11
Dairy products	5
Bio products	26
Drinking yogurt	24
Thin milk desserts	20
Curd	14
Cookery products	4
Ready-made mixture for cooking	29
Instant food products	21
Mayonnaise	1
Snacks	11
Salty seafood snacks	23
Crisps	11

Source: AC Nielsen

Leading product category in terms of its share in the monetary terms – “Alcohol drinks” – demonstrated the highest growth rates and increased the gap between the other groups. The highest rates were demonstrated by the subcategory “beer”, which sales in physical terms increased by 17%. In the segment of alcohol products premium and sub-premium segments demonstrated the highest rates. At that vodka sales in natural terms reduced by nearly 2% compared to 2006. Thus, in Russia there is a trend of changing alcohol consumption structure which is in the growth of share of products with lower content of alcohol on one hand and more expensive and of a better quality drinks on the other. Such a significant sale of alcohol drinks is largely explained by a series of 2006 alcohol crises when the production and retail sales of alcohol drinks demonstrated considerably worse dynamics.

Products category “**Soft drinks**” which in monetary terms takes the second place demonstrated less rapid growth rates than retail sales of food products in general. At the same time such subcategories as “juices”, “carbonated drinks” demonstrated higher growth rates especially the latter (kvass sales increased by more than 50%).

Sales of **confectionary** in retail increased by only 9%, at the same time higher growth rates were demonstrated by the subcategory of “chocolate” within which sales of chocolate bars increased by 21% in monetary terms.

Sales of **dairy products** in 2007 increased insignificantly – just by 5%. At the same time sales growth dynamics of subcategories within this product group was characterized by differently directed trends: curd, innovative products (juicy milk drinks, drinking yogurt, kefir products, etc.) as well as bio products (for example sales of milk products containing pro biotic increased by 43%) demonstrated dynamic growth. At the same time milk sales increased extremely insignificantly. As a result of 2007 the market share of milk products with bio additives is 25% in monetary terms.

In spite of the fact that the sales of product category “**snacks**” has been growing at lower rates than food products, “seafood snacks” subcategory increased by more than 23%. At that in terms of sales this subcategory is close to the leading subcategory of “crisps”. It is also important to note that bread sticks sales reduced by nearly 10% in 2007.

Product category of “cooking products” in 2007 demonstrated lower rates due to stagnation of the sales of the key subcategory “mayo” which takes 50% of the total sales. At the same time segments of “mixtures for cooking” and “ready-made meals” increased by more than 20% in monetary terms which speaks of the change of demand in this segment towards more expensive products including products with natural ingredients.

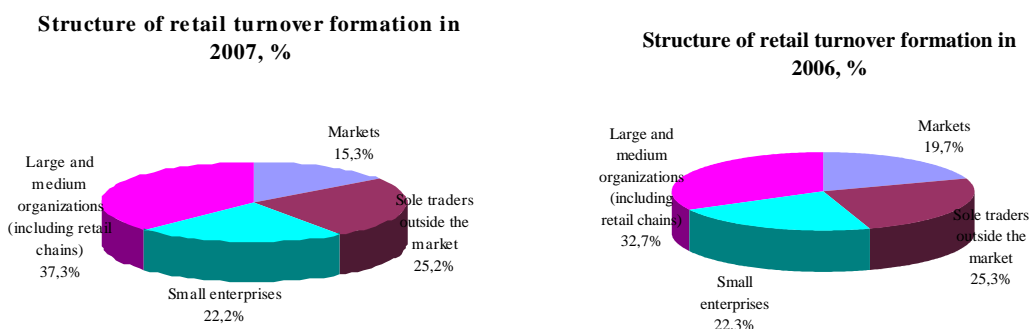
RETAIL TURNOVER STRUCTURE BY THE TYPES OF TRADING ORGANIZATIONS

In 2007 the trend of sales growth of trading organizations continued and their share in the retail structure increased to 84,5% and the share of sales in merchandize, mixed and food markets reduced to 15,5% compared with 19,6% in 2006. In February 2008 this trend has strengthened: 86.3% of the retail turnover was formed by trading organizations and the share of retail markets and fairs amounted to 13.7% (in February 2007 – 83.3% and 16.7% correspondingly).

The share of the markets in the retail turnover continues to fall:

Of food products it amounted to 17.6% in 2004, 16.8% in 2005, 15.6% in 2006, 12% in 2007 and 10.5% is expected in 2008;

Of non-food products 26% in 2004, 24.5% in 2005, 22.8% in 2006, 19% in 2007 and 15.5% is expected in 2008.



Source: Infoline

Turnover of trading organizations and markets in 2002-2007, billion rub.

Index	2002	2003	2004	2005	2006	2007
Retail turnover	3765	4529	5642	7038	8690	10757,8
Trading organizations' turnover	2838,8	3451,1	4420,5	5558,2	6987	9111,8
Sales of merchandize, mixed and food markets	926,2	1077,9	1254,1	1479,8	1703	1646,0
Share of trading organizations, %	75,4	76,2	77,9	79,0	80,4	84,7
Share of markets, %	24,6	23,8	22,1	21,0	19,6	15,3

Source: Federal State Statistics Service

Growth of turnover of trading organizations in 2007 amounted to 21.5% and sales of markets reduced by 10.5%. In monetary terms monthly volume of market sales in 2007 increased by 43.4% (in January – 121.3 billion rub., in December – 173.9 billion rub.) while turnover of trading organizations increased by 77.6% (from 594.4 billion rub. to 1,055.2 billion rub. correspondingly). The reduction of the market turnover and decrease of their number was due to:

Dynamic growth of the turnover and the number of trading outlets of FMCG chains which represent more attractive purchasing conditions, better prices and product quality for customers;

Stiffening of legislation in the sphere of retail, complicated conditions of enterprises and organizations activity being participants of the market;

Realization of programs aimed at the reduction of non-organized trade in the series of Russian regions.

Dynamics of the number of markets in Russia and their share in the retail turnover in 2004-2007.



Source: Infoline

The reduction of the share of markets in retail turnover was accompanied by the decrease of their number due to liquidation or reorientation in shopping centers: as of January 1, 2005 there were 6.44 thousand markets operating in Russia, as of January, 2008 – about 4.7 thousand. The reduction of the number of markets was due to the stiffening of the state regulations: markets which had not received the permission had to be converted into shopping

centers upon availability of capital buildings which meet modern requirements, into seasonal fairs or closed down if their location is not provided by the approved plan of market locations.

As a result of 2007 there was a trend of markets integration: as of January 1, 2007 one market consisted of 204 trading points on average, as of June 1 - 228 points and at the beginning of 2008 – 245 points.

Thus in 2007 in the development of Russian retail there were three important trends that had a significant impact on food market development:

Considerable reduction of the share of markets in retail turnover and increase of the share of trading organizations and retail chains in particular which are related to the group of “large and medium, trading organizations” according to the Federal State Statistics Service;

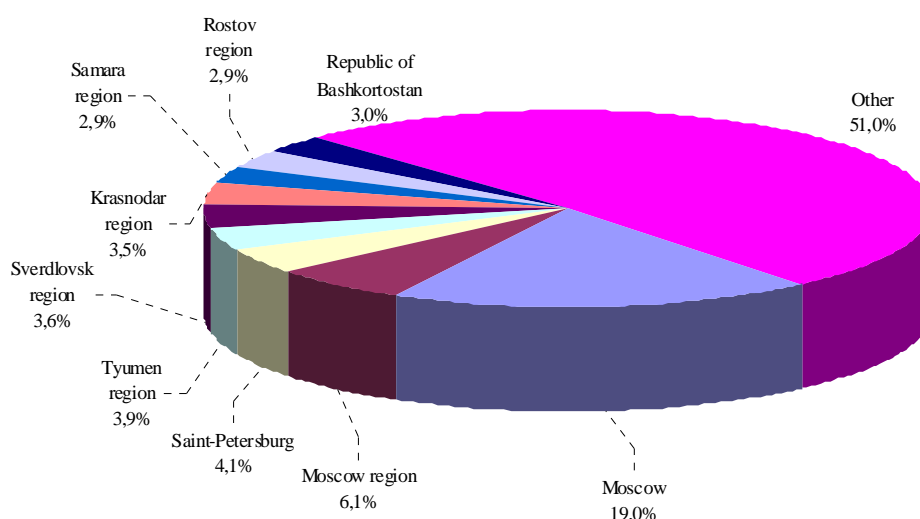
Increase of growth rates of food turnover and import share in the structure of mass of commodities of retail enterprises caused by the growth of real income and the change in the demand structure due to the growth of the share of meat, vegetables, semi-finished products, innovative products, healthy products, etc.

Significant increase of prices on the series of food products (dairy products, sunflower oil, bread) conditioned the agreements on the Governmental and local level between producers and retail chains on freezing of prices on the socially important products.

REGIONAL RETAIL TURNOVER STRUCTURE

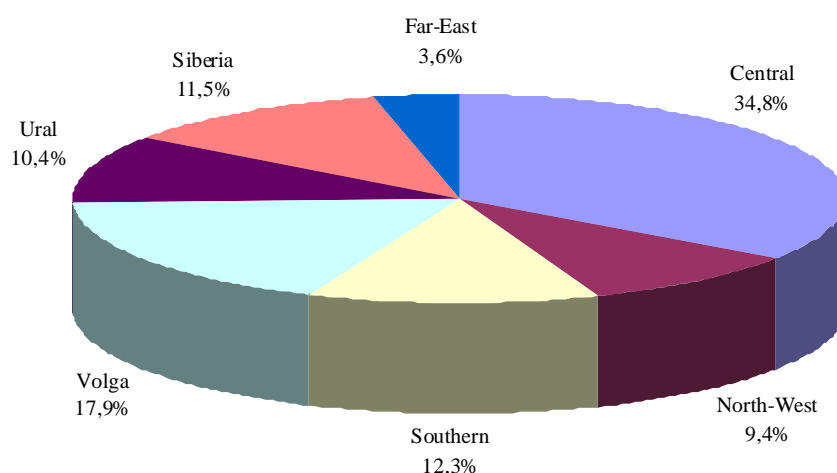
Russia’s regional retail turnover structure is quite uneven: 49% of retail turnover was made by 10 subjects of Russian Federation (Moscow, Moscow region, Saint-Petersburg, Sverdlovsk region, Krasnodar region, Samara region, the Republic of Tatarstan, Tyumen region, Chelyabinsk and Rostov region). The share of the largest subjects of Russian Federation has been reducing (by 1.5-2% per year) due to lower growth rates of retail turnover in Moscow and Saint-Petersburg compared to the other regions.

Structure of retail turnover by subjects of RF in 2007



Source: Infoline

Retail turnover structure by districts in 2007



Source: Infoline

Retail turnover in 2007 compared with 2006 increased in all federal districts and subjects of RF. Increase by more than 20% was recorded in 21 subjects of Russian Federation, by more than 25% - in 7 subjects of RF (including Moscow and Tula region as well as the Republic of Altai and Bashkortostan), by more than 30% - in 3 subjects of RF (Vladimir region, the Chechen Republic, Ust-Ordynski Buryat autonomous district).

In January-February 2008 compared with January-February 2007 retail turnover increased in all federal districts and nearly all subjects of RF apart from Kalmykia and Chechnia. The highest increase (by 30% and more) was recorded in Krasnodar region (by 30.2%), Ulyanovsk region (31.6%), Ivanovo region (38.1%), the Republic of Udmurtia (40.5%), Chukotka autonomous district (47.3%). Moreover, it is important to note high growth rates of retail turnover in Moscow which are just 2.2% below the level of Moscow region.

Regional structure of Russia' retail turnover in 2002-2007, %

Region	2002	2003	2004	2005	2006	2007
Central Federal District	40,2	39,2	38,9	37,4	35,9	34,7
Moscow	27,3	26,1	24,6	22,9	21,1	19,0
Moscow region	4,0	4,3	5,2	5,3	5,7	6,1
North-West Federal District	9,3	9,2	9,0	8,9	9,3	9,4
Saint-Petersburg	3,7	3,9	3,6	3,5	4,0	4,1
Southern Federal District	10,6	10,5	10,7	11,5	11,7	12,3
Volga Federal District	16,6	16,6	16,7	17,1	17,4	17,9
Ural Federal District	7,9	8,4	8,8	9,3	10,0	10,4
Siberian Federal District	11,5	11,6	11,7	11,7	11,6	11,5
Far-East Federal District	4,2	4,2	4,2	4,1	4,0	3,9

Source: Federal State Statistics Service

MAIN COMPETITORS¹

Concentration of the Russian food retail market is quite low – the share of 3 largest players is 6% of the market which considerably yields to analogous figures in Eastern and Western European countries.

Such a low capital concentration creates the preconditions for competition intensification among retail chains in the nearest future. Currently competition development is expressed in capture of the extra markets due to the growth of the chain itself including the use of franchising schemes as well as M&A deals. As a result, chains operating in the Russian market actively increase their presence in Moscow and regions which leads to the record indices of the business growth.

X5 Retail Group

X5 Retail Group N.V. (LSE: FIVE, Moody's - "B1", S&P - "BB-") is Russia's largest food retailer in terms of sales. It operates under two brands of "Pyaterochka" and "Perekrestok".

The merger of the "Pyaterochka" and "Perekrestok" companies took place on May 18, 2006 with the aim of creation of the largest company in the food retail market in Russia.

As of December 31, 2007 the Company consisted of 674 owned "Pyaterochka" stores in the format of a soft discounter located in Moscow (309), Saint-Petersburg (244) and other regions of Russia (121) as well as 179 owned "Perekrestok" supermarkets in the Central region of Russia and Ukraine including 105 stores in Moscow as well as 15 owned supermarkets.

As of December 31, 2007 the number of franchised stores on the territory of Russia and Kazakhstan amounted to 688.

Net sales of the consolidated company in 2007 amounted to 5,320 million USD which is by 53% higher than in 2006. Gross profit in 2007 reached 1,404 million USD, EBITDA amounted to 479 million USD, net profit – 141 million USD.

Metro Group

In 2005-2007 Metro C&C opened 8-10 outlets every year, most of them demonstrated high sales. In 2008-2009 there will be stabilization of the number of openings of not less than 8 objects per year and as opposed to 2005-2006 when the stores were opened in the new regions for the company, Metro Group is increasing the number of stores in the regions where operating stores demonstrate the best results.

Moreover Metro Group in Russia implements the strategy of the multi-format development in the framework of which the hypermarket Real was opened in 2005 and a hypermarket of household electronics Media Markt was opened in 2007. Strategic development program of Metro Group provides simultaneous opening of Metro C&C stores, Real hypermarkets and Media Markt hypermarkets of household electronics in the most prospect regions which will enable to improve the efficiency of purchasing and logistics structures. Despite the development of the unique format for Russia - cash&carry significantly limiting the number of potential customers - in the majority of regions Metro stores successfully compete with hypermarkets of Russian chains and with Auchan hypermarkets in Moscow.

Auchan

Development of Auchan chain in 2007 has slowed down: the number of openings declined from 7 to 4. In the end of 2007 Auchan completed extremely successful transaction on

¹ Source: Infoline, companies

acquisition of the retail business of hypermarkets of “Ramstore” chain, which despite the necessity of the development of the new for the company format in Russia – “Auchan-city mini-hypermarket provided extremely high growth rates of the selling space and expansion in the present regions.

At the end of 2008 Auchan efficiency is likely to decrease (for example, sales per sq. m. of space) in the result of rebranding and reconstruction of “Ramstore” hypermarkets. However in 2009 this trend will be overcome. Auchan would not have achieved similar growth rates of selling space and geographical coverage expansion by means of organic development. Thus, acquisition of “Ramstore” hypermarkets will enable Auchan chain to reduce the underrun from the top three Russian retailers in 2008.

Dixy

As of the end of December 2007 “Dixy group” managed 388 stores – 377 “Dixy” stores (discounter format), 8 “Megamart” stores (compact hypermarket), 7 «Mimimart» stores (economy supermarket). In 2007 “Dixy group” opened 65 stores including 61 “Dixy” discounters, 3 “Megamart” hypermarkets and 1 “Minimart” supermarket. 3 stores were closed in 2007. Total selling space of the stores increased from by 22.85 thousand sq. m. to 151 thousand sq. m. in 2007. The stores of the chain are represented in 3 federal districts of Russia (Central, North-West and Urals).

In 2008 “Dixy group” is considering the opportunity to buy-out leased stores opened during 1999-2002 in Moscow and Saint-Petersburg to improve infrastructure and their organic growth.

Dynamics of stores of Russia’s retailers in 2004-2007

№	Legal name	Main formats	Brand	Number of stores			
				2004	2005	2006	2007
1	X5 Retail Group N.V.	Supermarket, discounter	Pyaterochka and Perekrestok	330	446	619	868
2	“METRO Cash and Carry” company limited	Hypermarket	Metro C&C	12	22	31	39
3	“Tander”, CJSC	Discounter	Magnit	1014	1500	1893	2197
4	“Auchan-Russia” company limited	Hypermarket	Auchan	6	7	14	18
5	“Dixy-group”, OJSC	Discounter	Megamart, Minimart, Dixy, V-mart	152	220	300	388

Source: Infoline

Dynamics of selling space of Russia’s retailer in 2004-2007

№	Legal name	Main formats	Brand	Selling space			
				2004	2005	2006	2007
1	X5 Retail Group N.V.	Supermarket, discounter	Pyaterochka and Perekrestok	251	337	466	609,1
2	“METRO Cash and Carry” company limited	Hypermarket	Metro C&C	90	170	260	330
3	“Tander”, CJSC	Discounter	Magnit	282	381	530	651,7
4	“Auchan-Russia” company	Hypermarket	Auchan	95	99	180	210

№	Legal name	Main formats	Brand	Selling space			
				2004	2005	2006	2007
	limited						
5	"Dixy-group", OJSC	Discounter	Megamart, Minimart, Dixy, V-mart	70	100	128,2	151

Source: Infoline

Dynamics of sales of Russia' retailers in 2004-2007

№	Legal name	Main formats	Brand	Sales, million USD			
				2004	2005	2006	2007
1	X5 Retail Group N.V.	Supermarket, discounter	Pyaterochka and Perekrestok	1769	2374	3551	5320
2	"METRO Cash and Carry" company limited	Hypermarket	Metro C&C	1100	1801	2893	3400
3	"Tander", CJSC	Discounter	Magnit	848,5	1578	2504	3676
4	"Auchan-Russia" company limited	Hypermarket	Auchan	525	1496	2000	3000
5	"Dixy-group", OJSC	Discounter	Megamart, Minimart, Dixy, V-mart	500	845	1086	1433

Source: Infoline

COMPETITIVE ADVANTAGES OF "MAGNIT" CHAIN

Formation of the multi-format business

The strategic decision to develop the additional format of a hypermarket will provide the Group with the deeper segmentation of the current markets and potential customers with different income simultaneously achieving high efficiency of turnover per store and of the average ticket as well as rapid paces of business growth. Moreover, the pricing policy of "Magnit" allows it to compete with open-air markets taking into consideration the potential customers with income below average.

Strong regional coverage

The group of "Magnit" companies has considerable experience of operation in the regions: 2002 - 2007 impressive growth of the Group turnover was a result of expansion in the cities with a population of less than 500 thousand people. In the nearest future it is the regions where the Company will experience the biggest growth of the consumer demand which creates the favorable conditions for medium-term dynamics of the Group's business.

The largest chain in RF in terms of number of stores

In terms of number of stores "Magnit" chain occupies the first place in Russia which favorably effects the cooperation with the largest producers of food and beverages promoting their products on the regional markets. First of all it reflects in purchasing on the advantageous conditions and corresponding increase of the business profitability.

Recognized brand

According to independent expert research, IGD in particular, Russian customers pay considerable attention to the brand when shopping for food. Moreover, loyalty of Russian customer to one or another brand is higher in comparison with European citizens, which makes Russian customers less sensitive to the growth of product prices. Therefore, wide chain of stores united under “Magnit” brand allows the Group to strengthen its positions in the occupied market niche.

Effective logistics system

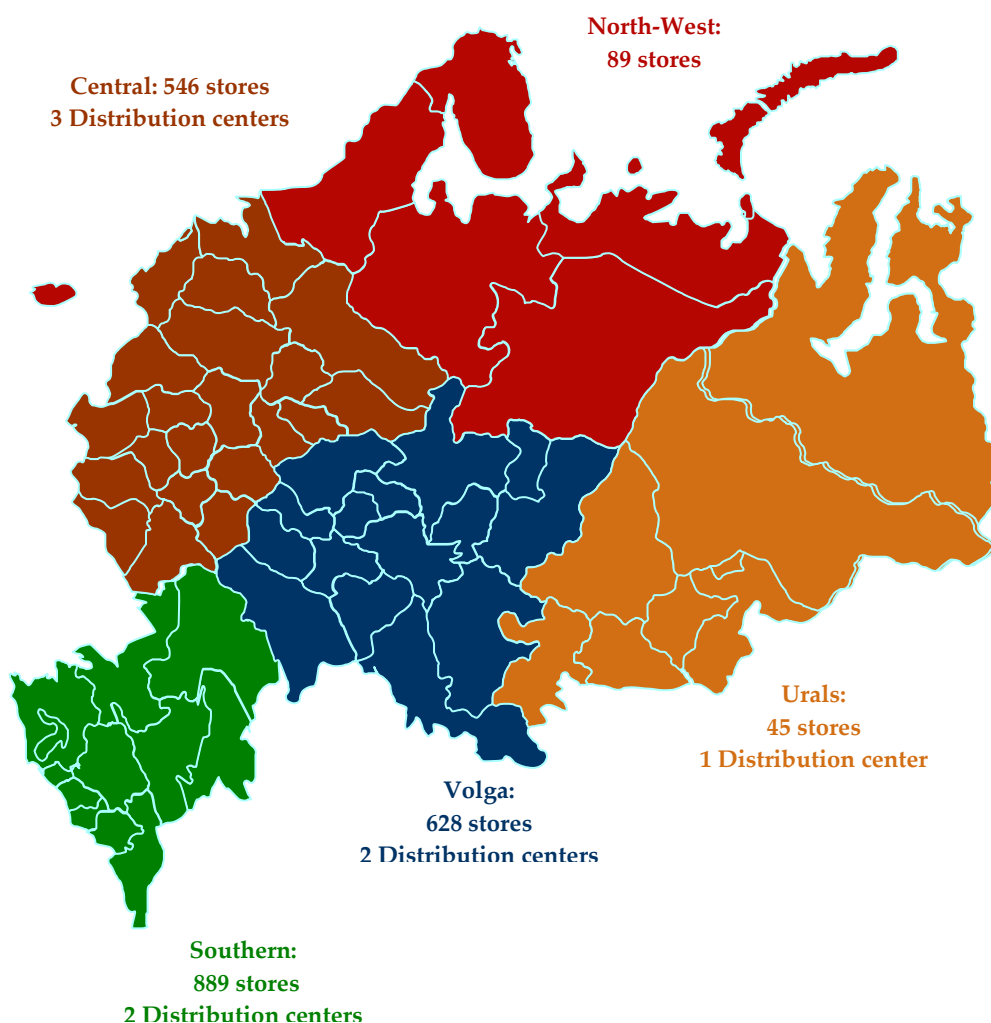
Developed logistics system, distribution centers and own fleet of vehicles allows the Group to carry out strict control over overhead charges. The use of distribution centers favors to reduce the purchasing prices as well as the load of the store when accepting the goods and, at the end, contributes to more efficient business organization.

The Group employs highly efficient automated stock replenishment system which furthers to achieve high turnover as well as to reduce the costs.

9. PRIORITY DIRECTIONS OF THE COMPANY'S OPERATION

Based in Krasnodar, in the Southern region of Russia, open joint-stock company "Magnit" is a holding company for a group of entities that operate in the retail trade under the "Magnit" name. The chain of "Magnit" stores is one of the leading operators in the Russian food retail market. As of December 31, 2007 the chain consisted of 2,194 convenience stores and 3 hypermarkets in more than 700 locations in the Russian Federation.

Approximately two-thirds of the Company's stores are located in cities with a population of less than 500 thousand. The Company operates in 5 out of 7 federal districts. Most of its stores are located within the Southern, Central and Volga regions. The Company also operates stores in the North-Western and Urals regions. At the end 2007, stores located in the Southern Federal district accounted for 889, in Volga region there were 628, Central Region – 546, in the North-West and Ural regions the number of stores amounted to 89 and 45 correspondingly.



The Company operates an in-house logistics system consisting of 8 modern distribution centers: two of them are located in Kropotkin and Bataysk, Southern Federal district, two are in Engels and Togliatti, Volga Federal district, another three

distribution centers are based in Tver, Oryol and Ivanovo, Central Federal district and one in Chelyabinsk, Urals.

City	Federal District	Warehousing space, sq. m.	Number of serviced stores	Leased/Owned
Bataysk¹	Southern	16,576	267	<i>Собственный**</i>
Kropotkin	Southern	30,048	492	<i>Собственный</i>
Engels	Volga	19,495	322	<i>Собственный</i>
Togliatti	Volga	8,379	254	<i>Арендованный</i>
Tver	Central	10,714	170	<i>Собственный</i>
Oryol	Central	12,472	325	<i>Собственный</i>
Ivanovo	Central	24,120	274	<i>Собственный</i>
Chelyabinsk	Urals	16,576	93	<i>Собственный</i>
Total		138,380	2,197	

The Company operates automated stock replenishment systems and a fleet of 802 vehicles.

¹ Ownership rights are being obtained

10. PRIORITY DIRECTIONS OF THE COMPANY'S DEVELOPMENT

Within the medium-term development outlook the Company marks out the following directions:

- Further expansion of the chain due to the growth of the key markets coverage as well as organic expansion in the least developed regions.
- Development of the multi-format business-model through active implementation of the hypermarket format.
- Formation of the high level of loyalty of the key audience to the brand.
- Achieving and keeping up with the leading positions in the field in terms of level of expenses.

Chain development

In the nearest 2-3- years the Company plans to keep high rates of the business growth, opening not less than 250 main format stores per year in the cities with the population up to 500,000 people.

The key territories for the Company are Southern, Volga and Central regions, it is planned to increase the number of stores in Ural. In the long-term outlook the management of the chain does not exclude an approach to the markets of Siberia and the Far East.

Development of the multi-format model

Currently the Company is actively constructing the hypermarket format on the developed territories.

Hypermarkets will be principally opened in the cities with population from 50,000 – 500,000 citizens, at that the retail outlet will be located inside the city (within the city boundaries).

As of 01.01.2008 the Company had 3 operating hypermarkets in:

Krasnodar, population of 646,175 people, total space of 11,283 sq. m., hypermarket selling space of 4,200 sq. m., lease space of 3,000 sq. m.;

Kingisepp, population of 50,295 people, total space of 6,264 sq. m., hypermarket selling space of 2,790 sq. m., lease space of 445 sq. m.;

Solnechnogorsk, population of 58,374 people, total space of 11,655 sq. m., hypermarket selling space of 4,600 sq. m., lease space of 2,650 sq. m.;



Depending on the location (size of the location or of the area in a large city) there are 3 sub-formats of the hypermarket:

«small» will have total space of 3,200 – 4,700 sq. m., selling space of 2,000 – 2,500 sq. m.;

«average» will have total space of 11,100 - 11700 sq. m., hypermarket selling space of 6,000 – 8,100 sq. m. (including lease space);

«large» will have total space of 21,000 sq. m., hypermarket selling space of up to 12,500 sq. m.; (including lease space).

Strategic development direction of the new format for the Company – a format of a hypermarket will enable to carry out more profound segmentation of the existing markets and consider population with different income as potential customers which results in high turnover per store and average ticket as well as fast business growth.

Pricing policy of the Company allows it to compete with open air markets considering customers with income below average as the target audience.

Brand recognition and customer loyalty

The management of the Company takes measures to adapt the traditional format for changing preferences of the customers. In the regions with the most solvent demand the work is carried out with the traditional discounter assortment in the direction of its expansion in favor of more expensive products (for example, ready cookery and semi-prepared meat).

Within the complex of measures taken to improve the loyalty to the “Magnit” brand there will be analysis carried out to study the preferences of the customer and the marketing program set out according to the peculiarities of different formats.

As an additional factor of the brand popularity the management of the Company supposes to improve the service in the chain stores through appropriate work with its employees.

Minimization of expenses

The main means of the successful development in the above direction is further improvement of the logistics processes and investments in the IT system which will provide the Company with maximum effective stock management and transport flows and will be conducive to its transition to the leader in terms of expenses control.

Among the plans of the Company is an active development of private label products which enables the Company to increase its profitability.

The status of Russia's leading chain in terms of number of stores and customers makes the Company effectively co-operate with suppliers achieving maximum favorable purchasing conditions.

11. INFORMATION ON THE PAID DIVIDENDS

It was resolved by the annual general shareholders' meeting of June 28, 2007 (minutes of meeting of 10.07.2007) not to pass any dividends on ordinary nominal shares of OJSC "Magnit".

12. SECURITIES

AUTHORIZED CAPITAL STOCK

The authorized capital stock of the Company determines the minimum amount of assets that guarantee its creditors' interests.

As of December 31, 2007 authorized capital stock of the open joint-stock company "Magnit" amounted to 720,000 rubles. It consists of 72,000,000 ordinary nominal uncertified shares with par value of 0.01 rubles.

During 2007 charter capital of OJSC "Magnit" remained unaffected.

The Company has a right to offer in addition to the placed shares ordinary nominal shares numbering 128,850,000 shares with par value of 0.01 RUB each (authorized shares).

Information on the placed shares of OJSC "Magnit" as of 31.12.2007:

<i>Description of securities</i>	<i>Number of state registration</i>	<i>Date of state registration</i>	<i>Nominal, RUR</i>	<i>Total number of securities</i>
Ordinary nominal uncertified shares	1-01-60525-P	04.03.2004	0.01	72,000,000
Total:				72,000,000

Structure of OJSC "Magnit" share capital as of 31.12.2007:

<i>Name</i>	<i>Number of registered persons</i>	<i>Share in the charter capital, %</i>
Legal persons	11	41.7256
Including nominal holders	10	41.7255
Natural persons	15	58.2744
Total:	26	100

BONDS

Bond issue of OJSC "Magnit Finance" of 01 series:

In 2005 The Company entered the stock market offering their investors the bond issue issued by Limited Liability Company "Magnit – Finance", the subsidiary of OJSC "Magnit". The Bond issue allowed the Company to optimize its debt portfolio and work out the technologies of cooperation with investors in order to move out further on the stock market with the Company's shares.

Bond included 2 million securities with nominal value of 1 thousand RUB guaranteed by CJSC "Magnit" and CJSC "Tander". Bonds will be outstanding for three years. The primary intent of the bond issue was the refinancing of short-term liabilities of the Group. For this purposes the management invested not less than 75% of the raised funds, the rest was spent on further development of "Magnit" chain.

The offering of the certified interest-bearing non-convertible bonds payable to bearer of 01 series with the obligatory centralized deposit of LLC "Magnit-Finance" on the MICEX

Federal stock exchange started at November 23, 2005. The number of the virtually offered securities amounted to 2,000 thousand securities which constitutes 100% of the total number of securities liable to the offering. The bond issue was fully realized in the course of auction in the first day of offering.

Parameters of the bond issue of LLC “Magnit-Finance” of 01 series:

<i>Date and the number of state registration</i>	№ 4-01-36102-R of October 27, 2005
<i>Issue volume</i>	2,000,000,000 rubles
<i>Number of securities</i>	2,000,000 bonds
<i>Nominal value of each security</i>	1,000 rubles
<i>Offering price</i>	100% of par value
<i>Offering date</i>	23.11.2005
<i>Offering method</i>	Open subscription
<i>Due date</i>	1092 days from the offering date (19.11.2008)
<i>Number of coupons</i>	6
<i>Trading code</i>	RU000A0GJ0L9
<i>ISIN code</i>	RU000A0GJ0L9
<i>Coupon interest rate as of auctions' results</i>	9.34%
<i>First coupon interest rate</i>	9.34%
<i>Second coupon interest rate</i>	9.34%
<i>Third coupon interest rate</i>	9.34%
<i>Fourth coupon interest rate</i>	9.34%

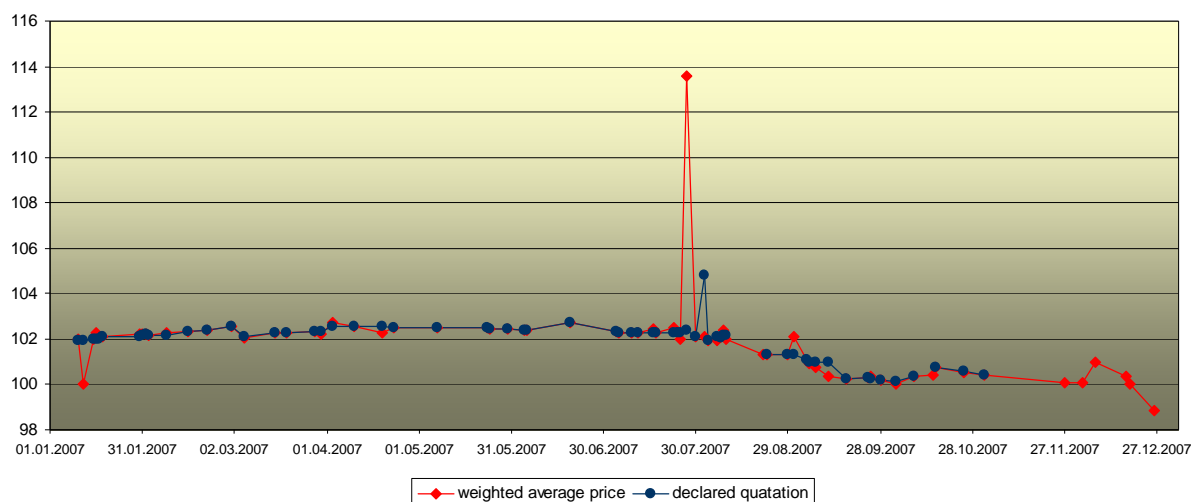
The first coupon profit of 01 series bond issue was paid out on May 24, 2006. The total amount of profit paid out of the first coupon amounted to 93.14 million RUB, the amount of profit on the first coupon paid out per one bond amounted to 46.57 RUB.

The second coupon profit of 01 series bond issue was paid out on November 22, 2006. The total amount of profit paid out on the second coupon amounted to 93.14 million RUB, the amount of profit of the second coupon paid out per one bond amounted to 46.57 RUB.

The third coupon profit of 01 series bond issue was paid out on May 23, 2007. The total amount of profit paid out on the third coupon amounted to 93.14 million RUB, the amount of profit of the second coupon paid out per one bond amounted to 46.57 RUB.

The fourth coupon profit of 01 series bond issue was paid out on November 21, 2007. The total amount of profit paid out on the fourth coupon amounted to 93.14 million RUB, the amount of profit of the second coupon paid out per one bond amounted to 46.57 RUB.

According to the trading sessions during the period from 01.01.2007 to 31.12.2007 the weighted average price of the bond transactions fluctuated from min 98.86% (26.12.2007) to max 113.6 % (27.07.2007) of par value. Declared quotation during this period fluctuated from min 100.15% (03.10.2007) to max 104.79% (02.08.2007) of nominal value.



Bond issue of LLC “Magnit Finance” of 02 series:

In 2007 the Company offered its investors the second bond issue also issued by “Magnit Finance” company limited, subsidiary of OJSC “Magnit”.

Issue included 5 million securities with the nominal of 1 thousand RUB guaranteed by OJSC “Magnit” and CJSC “Tander”. Issue will be outstanding for 5 years. As it is of the first issue, the second was conditioned by the necessity of refinancing short-term liabilities of the group.

The offering of the certified interest-bearing non-convertible bonds payable to bearer of 02 series with the obligatory centralized deposit of LLC “Magnit-Finance” on the MICEX Federal stock exchange started at March 30, 2007. The number of the virtually offered securities amounted to 5,000 thousand securities which constitutes 100% of the total number of securities liable to the offering. The bond issue was fully realized in the course of auction in the first day of offering.

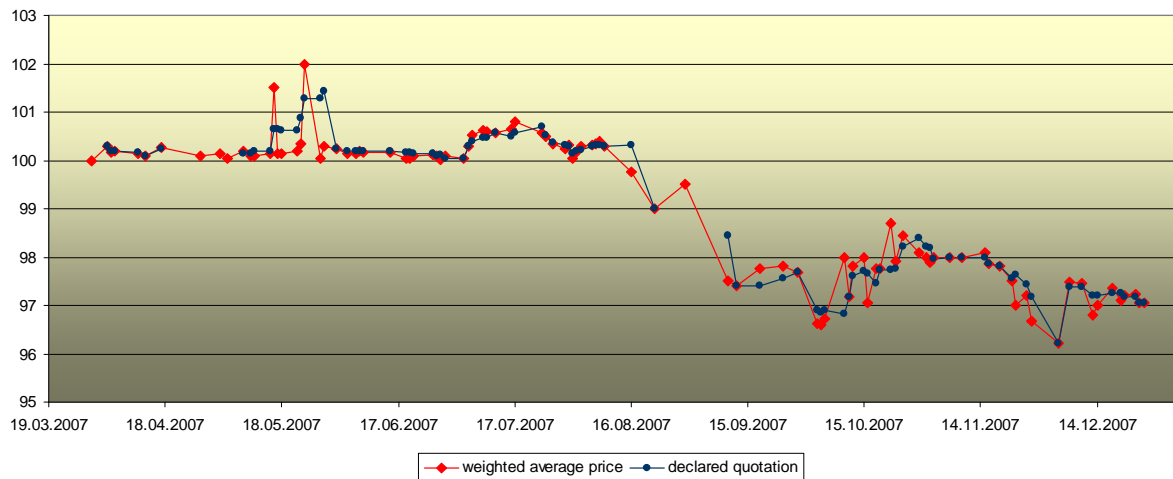
Parameters of the bond issue of LLC “Magnit-Finance” of 02 series:

<i>Date and the number of state registration</i>	№ 4-02-36102-R of March 6, 2007
<i>Issue volume</i>	5,000,000,000 rubles
<i>Number of securities</i>	5 000 000 bonds
<i>Nominal value of each security</i>	1,000 rubles
<i>Offering price</i>	100% of par value
<i>Offering date</i>	30.03.2007
<i>Offering method</i>	open subscription
<i>Due date</i>	1 820 days from the offering date (23.03.2012)
<i>Number of coupons</i>	10
<i>Trading code</i>	RU000A0JP4W7
<i>ISIN code</i>	RU000A0JP4W7
<i>Interest rate of the auction results</i>	8.20 %
<i>1 coupon interest rate</i>	8.20 %
<i>2 coupon interest rate</i>	8.20 %

The first coupon profit of 02 series bond issue was paid out on September 28, 2007. The total amount of profit paid out on the first coupon amounted to 204.45 million RUB, the amount of profit of the first coupon paid out per one bond amounted to 40.89 RUB.

The second coupon profit of 02 series bond issue was paid out on March 28, 2007. The total amount of profit paid out on the second coupon amounted to 204.45 million RUB, the amount of profit of the second coupon paid out per one bond amounted to 40.89 RUB.

According to the trading sessions during the period from 30.03.2007 to 31.12.2007 the weighted average price of the bond transactions of 02 series fluctuated from min 96.21% (04.12.07) to max 101.98% (24.05.07) of par value. Declared quotation during this period fluctuated from min 96.21% (04.12.2007) to max 101.42% (29.05.07).



SHARES TRADINGS

The shares of OJSC “Magnit” entered the Russian stock markets in April 2006.

On April 14, 2006 the shares of OJSC “Magnit” were admitted to tradings in the section of the List “Securities admitted to floatation but not included into the quotation lists” of Non-profit partnership ““Russian Trading System” Stock Exchange”.

On April 24, 2006 tradings of the shares of OJSC “Magnit” in the List of non-listed securities of Close joint-stock company “MICEX Stock Exchange” commenced.

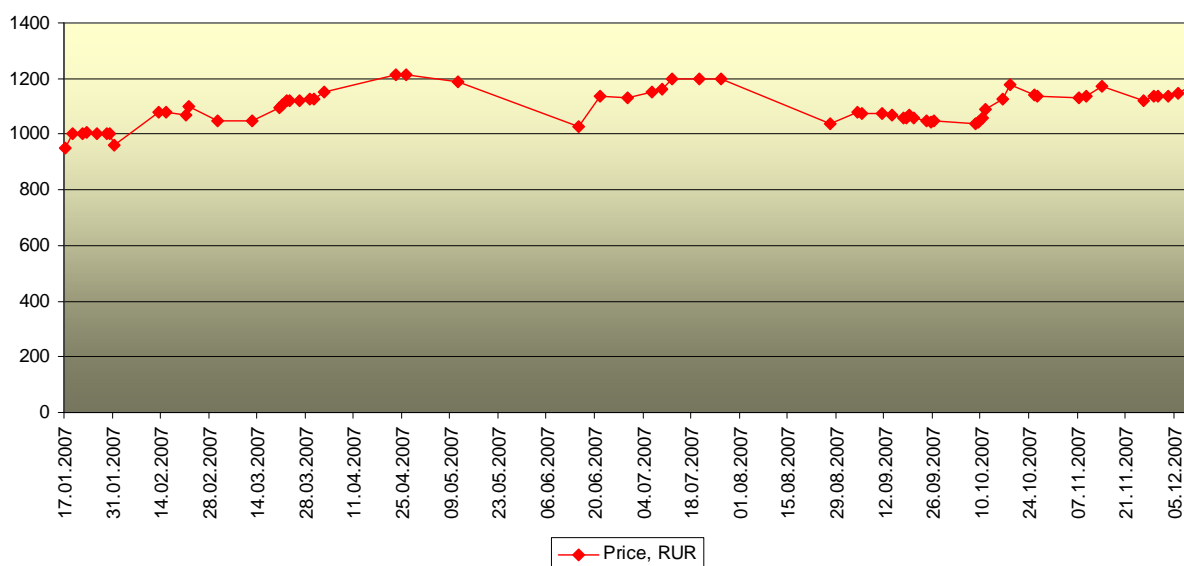
On April 28, 2006 the IPO of OJSC “Magnit” on the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) was completed.

The price of one share of OJSC “Magnit” in the course of offering on RTS and MICEX was fixed on the level of 27 USD. Proceeds for the whole block comprising 18.94% of the capital stock amounted to 368.355 million USD. Deutsche UFG functioned as an IPO coordinator; foreign investors were able to take part in the offering by purchasing the securities of “Magnit” in accordance with the rule “S”.

Since December 11, 2007 the shares of OJSC “Magnit” have been included into the Quotation list “B” of OJSC “Russian Trading System” stock exchange”, OJSC “Magnit” shares have been included to tradings in the corresponding list on December 13, 2007.

OJSC “Magnit” shares have been included in the quotation list “B” of CJSC “MICEX SE” and admitted to tradings in the corresponding list.

According to trading sessions for the period from 01.01.2007 to 31.12.2007 on “RTS SE” weighted average price of the shares transactions varied from min 950 rubles (17.01.2007) to max 1,215 rubles (23.04.2007).



Market capitalization of OJSC “Magnit” at the end of 2007 amounted to 82,831,802,400 rubles according to OJSC “RTS” SE”.

13. LIST OF 2007 TRANSACTIONS DECLARED AS MAJOR IN ACCORDANCE WITH THE FEDERAL LAW "ON JOINT-STOCK COMPANIES"

1.	
Date of transaction	30.03.2007
Subject and other essentials of transaction	<p>Extension of pledge in the form of guarantee for the purposes of issue of non-convertible interest-bearing certified bonds of LLC "Magnit Finance" payable to bearer with obligatory centralized deposit of 02 series in the amount of 5,000,000 bonds with the par value of 1,000 rubles each offered by open subscription with the due term of 1,820 days from the bonds offering date (hereafter "Bonds").</p> <p>The Guarantor as well as the Issuer shall bear full responsibility to the holders of Issuer's bond the report on the issue of which is registered by the procedure provided by law or notification of issue of which is submitted to the registering authority for Issuer's fulfilling its obligations to the Bonds' holders including: - obligation to pay out aggregate coupon profit on 5,000,000 (five million) Bonds (procedure of the amount determination and payment term is specified by the Issuer in the decision on securities' issue and securities prospectus (hereafter "Issuing documents");</p> <ul style="list-style-type: none"> - obligation of acquisition of Bonds as provided by the Issuing documents; - obligation of Bonds redemption (including long-term) as provided by the Issuing documents and Russian law. <p>The Guarantor shall bear responsibility equal to the Issuer's in case of non- or unduly execution by the Issuer of its bonds obligations.</p> <p>The Guarantor shall bear responsibility to the Bonds holders in the amount of not exceeding Maximum Amount which constitutes the aggregate par value of Bonds (5,000,000,000 rubles) and aggregate coupon profit on Bonds.</p> <p>Guarantee agreement which pledges the Bonds obligations shall be effective from the date of creation of right of the first holder for such Bonds, and simple written form of the guarantee agreement shall be declared observed.</p>
Data on the compliance with the requirements of state registration and/or transaction acknowledgement in the cases provided for by the	State registration and /or transaction acknowledgement is not required.

Russian law	
Price of transaction in monetary terms and in percent of the balance sheet value of the issuer's assets as of the last date of the reporting period preceding the date of transaction	7 044 500 000 RUR. (Guarantee in the amount of the aggregate par value of Bonds of 5,000,000,000 rubles and aggregate coupon profit on Bonds), which constitutes 138.78% of the balance sheet value of the Issuer's assets as of 01.01.2007.
Due term of obligations hereof as well as information on their fulfillment	23.03.2012 (the possibility exists of early payment), obligations are being exercised
Reasons of expiry and consequences for the party or for the issuer with specification of penalties provided for by the conditions of transaction	No expiry
Information on the transaction being referred to the major transaction as well as on the approval of the transaction by the management body of the issuer	Major transaction which is a related-party transaction at the same time. The transaction is approved by the General shareholders' meeting of 15.01.2007, minutes w/o No. of 30.01.2007
Other information to be specified at the discretion of the Issuer	None

14. LIST OF 2007 TRANSACTIONS DECLARED AS RELATED-PARTY IN ACCORDANCE WITH THE FEDERAL LAW "JOINT-STOCK COMPANIES"

1.	
Date of transaction	30.03.2007
Subject and other essentials of transaction	<p>Extension of pledge in the form of guarantee for the purposes of issue of non-convertible interest-bearing certified bonds of LLC "Magnit Finance" payable to bearer with obligatory centralized deposit of 02 series in the amount of 5,000,000 bonds with the par value of 1,000 rubles each offered by open subscription with the due term of 1,820 days from the bonds offering date (hereafter "Bonds").</p> <p>The Guarantor as well as the Issuer shall bear full responsibility to the holders of Issuer's bond the report on the issue of which is registered by the procedure provided by law or notification of issue of which is submitted to the registering authority for Issuer's fulfilling its obligations to the Bonds' holders including: - obligation to pay out aggregate coupon profit on 5,000,000 (five million) Bonds (procedure of the amount determination and payment term is specified by the Issuer in the decision on securities' issue and securities prospectus (hereafter "Issuing documents");</p> <ul style="list-style-type: none"> - obligation of acquisition of Bonds as provided by the Issuing documents; - obligation of Bonds redemption (including long-term) as provided by the Issuing documents and Russian law. <p>The Guarantor shall bear responsibility equal to the Issuer's in case of non- or unduly execution by the Issuer of its bonds obligations.</p> <p>The Guarantor shall bear responsibility to the Bonds holders in the amount of not exceeding Maximum Amount which constitutes the aggregate par value of Bonds (5,000,000,000 rubles) and aggregate coupon profit on Bonds.</p> <p>Guarantee agreement which pledges the Bonds obligations shall be effective from the date of creation of right of the first holder for such Bonds, and simple written form of the guarantee agreement shall be declared observed.</p>
Parties of transaction	·the body giving the pledge in the form of guarantee – OJSC «Magnit» (hereafter «Guarantor»);

	<p>·natural and legal persons – owners of the Bonds (as provided by article 27.4 of the Federal Law “On the securities’ market”).</p> <p>Beneficiary under transaction: issuer of the Bonds – LLC«Magnit Finance»</p>
Full and short corporate name (names) of the legal body or the name of the natural person declared as an interested party to the transaction under the legislation of Russian Federation	Alexandr Prisyazhnyuk
Grounds (argumentation) on which such person is declared as an interested party to the transaction	Alexandr Prisyazhnyuk being a member of the Board of directors of the Issuer and CEO of LLC “Magnit-Finance” at the same time
The amount of transaction in monetary terms, thousand rubles	7,044,500 (Guarantee in the amount of aggregate par value of Bonds (5,000,000,00 rubles) and aggregate coupon profit on Bonds)
The amount of transaction as percent of the balance value of issuer’s assets on the date of the end of the last fiscal reporting period prior to the date of transaction, %	138.78%
The liability term of transaction	23.03.2012 (the possibility of pre-term redemption)
Data on the exercise of obligations	The obligations are being exercised
The management body of the issuer which takes the resolution on approval of the transaction, date of the resolution (date of record and minutes №)	The transaction is approved by the extraordinary shareholders’ meeting of OJSC “Magnit” on January 15, 2007 (minutes w/n of January 30, 2007)

2.	
Date of transaction	13.07.2007
Subject of transaction and other essentials	<p>The Lessor shall lease to the Lessee the following real estate:</p> <ul style="list-style-type: none"> - any real estate owned by the Lessor on the date of effecting the Lease Contract; - the Lessor’s real estate, newly erected or reconstructed after the Lease Contract, purchased by the Lessor (executed through supplementary agreements to the contract).
Parties of transaction	<p>The Lessor – OJSC«Magnit»</p> <p>The Lessee– CJSC«Tander»</p>
Full and short corporate name (names) of the legal body or the name of the natural person declared as an interested party to the transaction under the legislation of Russian Federation	Evgeniy Gordeychuk
Grounds (argumentation) on which such person is declared as an interested party to the transaction	Evgeniy Gordeychuk being a member of the board of directors of OJSC “Magnit” and CEO of CJSC «Tander » at the same time
The amount of transaction in monetary terms, thousand rubles	105,647
Lease term	11 months
The management body of the issuer which takes the resolution on approval of the transaction, date of	The transaction is approved by the annual general shareholders’ meeting of OJSC “Magnit”

the resolution (date of record and minutes No)	on June 28, 2007 (minutes w/o No. of July 10, 2007)
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15. DESCRIPTION OF THE MAIN RISK FACTORS RELATED TO THE OPERATION OF THE COMPANY

Due to the fact that OJSC “Magnit” and its subsidiaries operate within one group of companies of OJSC “Magnit” (hereinafter - “the Group”, retail chain “Magnit” or “The Company”), the risks are described for the entire Group in general.

The description of risks provided herein is not full-scale or extensive, but expresses Company’s viewpoint and its own assessment. Along with the risks specified herein, there exist other risks not included in the report which may affect the amount of investments into OJSC “Magnit” shares. Other risks, including those the Company is not aware of or which deem insignificant at the present time, may lead to reduction of revenue, excess of expenses or other events and (or) repercussions, as a result of which the price of Company’s securities will decline.

In case if one or several risks as described below arise, OJSC “Magnit” will take all the possible measures and apply best efforts to minimize the effect of negative changes. Today it is impossible to define particular actions of the Company in any risk conditions, as the elaboration of the adequate measures is impeded by the indeterminate character of the further situation development. The character of undertaken measures will depend on the conditions of each specific case. OJSC “Magnit” cannot guarantee that the measures taken to meet the negative fluctuations will considerably change the situation, because the majority of the described risks are beyond the control of the Company.

Risk Management Policy of the Company.

Generally the Company and the Group apply system approach of risk management. The key constituent elements of the risk management policy in each focus area are:

Risk identification

Risk assessment methods

Elaboration and implementation of comprehensive risk management framework

Ongoing monitoring of risk status

Risk management is fulfilled and applied to the entire Group

In regard to the industry risks, industry environment in the market for the intermediate-term and long-term periods is estimated according to the macroeconomic forecasts of MEDT and investment analysts. The prospective demand estimation is based on the forecasts on the population income sector and consumption level. The industry trends are estimated and defined in respect of diverse trade formats, breakdown of demand in the formats and competitive environment.

The conducted analysis underlies the development strategy aimed at consolidation of competitive positions and increase of market share of the Company.

Regarding country and regional risks, we monitor political and economic situation, as well as estimate the risk level of natural disasters, cease of transport communication in the regions, where “Magnit” chain stores are located. Territorial diversification of ‘Magnit’ company groups’ operation adds up to risk reduction.

Regarding financial risks, the level of interest rate, currency exchange, credit and liquidity risks is estimated.

Interest risks management is carried out through the most optimal ways of financing and coordination of resource attraction terms with the terms of implementation of the projects which are to be financed. To provide the opportunity of attracted resources’ optimization, the Group develops its credit profile, expands the data base of potential creditors and diversifies

means of their attraction. The reduction of resources costs is achieved through the policy of information transparency. One of the tools of interest risk management is the forecasting of the interest rate changes and the assessment of appropriate debt liability level of the Company with consideration such overall interest rate changes.

Regarding the currency risks, the analysts' forecasts on the possible fluctuations of the exchange rate are assessed, and the decisions on the amount and direction of currency position are taken. Since "Magnit" receives all revenues in Russian rubles and do not possess assets denominated in foreign currency, the Company does not take liabilities in foreign currency to minimize currency risks.

Regarding liquidity risks, the Company and the group in general maintains balanced ratio of assets and liabilities.

Regarding credit risks, the Company applies analysis of financial state of counteragents and the limit system.

Legal risk management is based on the strict observance of the present Russian legislation. Jurisdictional agencies regulate all legislation fluctuations which refer to the company activity and conducts legal inspection of all the contracts and agreements.

INDUSTRY RISKS

Risks related to customer demand and competition

Negative changes of macroeconomic conditions and the decrease of customer demand in Russia may adversely affect sales of the Group and its profit

The Group operates in the retail sector of food and goods of primary necessity.

The development of the retail sector, where the Group operates, in many aspects depends on macroeconomic factors because the demand for the consumer goods is determined by the amount of disposable income of population.

According to the forecasts of the Russian Government, GDP and as a result the population income will continue to grow over the next few years. However in case of economic instability the reduction of the actual disposable income of population may lead to deterioration of the growth dynamics and sector profitability. It should be noted that the growth of Russian economy is mainly assured by the growth of the oil price, other energy and mineral resources on the world market. Price collapse of mineral resources will negatively affect the economy of Russian Federation on the whole due to the dominant share of raw materials in GDP. Deterioration of the economic situation will also result in the reduction of the solvent demand in the country.

Consumer demand on the markets, where the Group operates, depends on a number of factors which are beyond control of the Group, including demographical factors, consumer preferences and spending capacity of the consumers. The reduction of the consumer demand or fluctuations of consumer preferences may dramatically reduce the sales and the profit of the Group, and substantially affect business activity, financial state and results of the Group and the Company. Moreover, the seasonality of the consumer demand may lead to considerable fluctuations of the Group operation results in different periods of time.

High level of competition may lead to decline of the market share of the Group and its profit

The Group operates in 5 federal districts and in more than 700 locations of Russian Federation with the highest concentration in the South, Central and Volga regions, and the nearest future plans to develop in the retail store chain in other regions of the country, including the Central and the Urals regions which are a priority. The retail market of the South Federal District (hereinafter “SFD”) is quite a competitive regional market in Russia and presented by the majority of the big Russian players and a number of western companies.

Russian retail sector is characterized by a high level of competition. The Group competes with a significant amount of Russian and international companies. In recent years consumer demand growth in Russia attracted new market participants and led to the intensification of competition. Retail chains compete with each other mainly for store locations, product quality, service and price, variety of goods and store conditions. Appearance of the additional players on the Russian market may intensify competition even more and reduce the operating efficiency of the Group.

Some of the Group’s competitors which are on the market today, and also those planning to enter the Russian market, are big international companies and apparently have more opportunities to attract resources than the Group. Moreover, many other international players, including those surpassing the Group in financial and other opportunities, will enter in the nearest years the Russian market through acquisition of local players and setting up of their own chains from the ground up.

If the above process is intensive, the competition may substantially grow, what will negatively affect the market share of the Group and its competitive position. The ability of “Magnit” retail chain to retain its competitive position depends on its opportunities to maintain and remodel the existing stores and open new stores in advantageous locations, as well as to offer competitive prices and services. There is no guarantee that the Group will be able to successfully compete with the present and new competitors in the future.

On the present stage of competitive activity the considerable risks for the Group are also connected with the fact that the main competitors to the Group use more aggressive approach such as gaining a foothold in the additional markets through the growth of the competitive chains based on franchising schemes. Such approach allows competitors to enhance their presence in many regions of Russia as well as considerably reduce the costs of new stores installations. The fact that the Group does not use the franchising schemes may lead to serious reduction of mobility in fluctuation of geographical coverage, and as a result to the loss of a considerable market share.

These factors as well as economic conditions and strategy of the discount pricing may lead to further competition intensification and negatively affect business, financial position and operational results of the Group and the Company.

Risks related to the intensive growth

Failure of the Group’s strategy in intensive expansion may obstruct its further growth

The stores operating under “Magnit” trade mark today are located in Moscow (7), Saint-Petersburg (13), Krasnodar region and 41 other constituent entities of Russian Federation. Within its strategy the Group plans to considerably increase the number of its stores in the above regions maintaining the same development rates as well as further to expand its chain in another 7 constituent entities of Russian Federation. The development plans of the Group make it dependent on economic conditions and some other factors.

The successful roll-out of the Group development strategy depends on its ability to identify and acquire suitable premises on commercially reasonable terms, to open new stores in

time, to employ, train and keep extra store and management personnel and to integrate new stores into the Group's existing operation on a profitable basis. There is no assurance that the Group will achieve the target growth and that the new stores will profit.

There is a risk of loss of target audience over the time. Gradual increase of population income may lead to the attrition of "Magnit" chain customers, and as a result to the material adverse effects on the Group.

The Russian food retail market is subject to changing customer trends, demands and preferences. The Group's target customers are mainly the consumers with medium or low income. If the level of disposable consumer income continues to increase nationwide (either generally or in certain federal districts, especially in the Southern Federal District where we derive a large 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 the consumers, and thus will lose a part of the target audience. As a result of such changes, 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 business, results of operation, financial position and prospects of the Group.

Failure to successfully launch and operate our hypermarket chain may result in material losses

Our expansion into the hypermarket business presents a particularly difficult challenge. While we have a long track record of successful installations of large numbers of new convenience stores, expanding the scope of activity, the Group has started its hypermarket expansion only recently. The first hypermarket was opened in October 2007, therefore many elements of our strategy with respect to hypermarket operations have not yet found its practical use or been applied.

In addition, our senior managers have relatively limited experience in managing hypermarkets, and there is no assurance that specialists recently involved in the operation of the hypermarkets will be able to control and to manage risks and duly exercise their authority. Moreover, hypermarket construction requires big financial investments and takes a significantly longer time. Based on the practice in hypermarket construction, on the average it takes the Group from 2 up to 8,7 months from the date of decision to purchase a land plot to receiving rights on it, additional 6 months go for obtaining of a construction license and 9 months for construction and obtaining of the rest necessary permissions and licenses. Since the Group have made large capital investments in already opened hypermarkets and hypermarkets under construction, and in the nearest future intends to make additional large capital expenditures on hypermarket chain expansion, the consequences of Group's inability to effectively manage and achieve target levels of profitability would be particularly negative to its business, results of operation, financial position and prospects.

Expansion of the Group through acquisition of other companies or their assets may be connected with different risks which may have serious adverse affect on the economic activity of the Group and its financial position

The Group plans to expand its operation through acquisition. Acquisition opportunities presuppose certain risks, including failure to single out the aims, appropriate for acquisition, and/or to carry out adequate complex examination of their operations and/or financial position, financial risks and operation expenses considerably higher than the assumed ones, moreover there is a risk of incapability to assimilate the operation and personnel of the acquired

companies, absence of the arrangement and integration of all the required systems and control, the risk of customer loss, as well as the risk of entering the markets, where the Group does not have any experience or has minor experience and/or markets, where the access to the necessary logistics provision and distribution chain is limited, as well as the risk of business interruption and diffusion of the Group management resources. If the Group is not able to integrate its acquisitions, such failures may have a material adverse effect on its financial position and results of operation.

Failure to raise enough funds may prevent the Group from realization of its plans on operation expansion

Implementation of the growth strategy of the Group may require large capital expenditures. There's no guarantee that the cash flow from operation of the Group and/or borrowings from financial institutions or financial assets attracted from the stock market would be enough for financing its scheduled expenses in the nearest future. If the Group fails to raise enough funds to cover its scheduled expenses, it is possible that it will have to reduce or cease expansion.

Expansive growth of the Group may lead to administrative, industrial and financial gap of resources

Group's output is growing very fast. The growth is expected to continue in the projected future. Such expansive growth as well as extra growth may lead to administrative, operational and financial gap of resources. As a result, "Magnit" retail chain will have in particular to continue improvement of its operational and financial systems, administrative management and approaches. The Group will also have to achieve strict coordination of transportation, technical, account, legal, financial, marketing, warehouse and store personnel operation. If the Group fails to manage with the above tasks, it may have an adverse effect on the operation and financial position of the Group.

Moreover, due to the ongoing growth, the Group may experience difficulties in application, expansion and improvement of its management information system. If the Group fails to maintain its management information system, financial accounting and in-house audit system at a proper level, its economic operations and financial position may materially suffer.

Risks related to the investments in real estate:

Lack of reliable information about the real estate market in Russian Federation makes it difficult to estimate the real estate owned by the Group

The amount of reliable public information and research concerning the real estate market in Russia is limited. The volume of the available data is not that comprehensive and complete as similar data on the real estate market in other industrially developed countries. The lack of information makes it difficult to assess the market value and rent price of the real estate in Russia. Therefore there is no confidence that the price set to the real estate of the Group reflects its market value.

The value of Group's investments in real estate may decline

The Group in whole and the Company in particular make substantial investments in real estate which is used for the store premises. The market of any goods including commercial property is subject to fluctuations. Market value of the real estate may decline or grow as a result of different factors, i.e.:

- a) changes in the competitive environment;
- b) changes of the appeal level of the real estate on the market of Russian Federation as a whole, as well as on the regional markets with the property objects of the Company, due to the changes of the country and regional risks;
- c) fluctuations of the demand for commercial real estate.

As a result of any negative changes on the real estate market the value of the real estate acquired by the Company or its subsidiaries may decline and negatively affect the assets value of the Group. Thus, in case of realization of such property the Group won't be able to compensate its acquisition costs, which may negatively affect the financial position of the Group and the Company.

Inability to receive rights on the suitable real estate object on commercially acceptable terms, to protect the real estate rights of the Group or to build new stores on newly acquired land plots may have a material adverse effect on economic operations of the Group and its financial position

Ability of the Group to open new stores is heavily dependent on identifying and leasing and/or acquisition of the premises suitable for its needs on commercially reasonable terms. The market for property in metropolitan areas of Russia is highly competitive and, in conditions of favorable economic environment, the competition for, and therefore the cost of, high quality land plots may increase. However, there's no guarantee that the Group will manage to exercise it in the future. If due to any reason, including competition from third parties seeking similar land plots and premises, the Group is not able to identify and obtain the new objects in time, Group's anticipated growth will be adversely affected. Even after the Group procures the rights on the suitable land plots and premises, it may experience difficulties or delays when obtaining permissions from various regional authorities, required for the exercise of the Group rights to use, renovate or reequip the stores. Therefore, there's no assurance that the Group will successfully identify, lease and/or purchase the suitable property objects on acceptable terms or if necessary.

Failure to renew the lease contracts for the stores or prolong them on reasonable terms may have materially adverse effect on economic activity of the Group and its financial position

There can be no assurance that the Group will be able to extend the lease contracts on reasonable terms, and even that there will be the opportunity itself to prolong the lease contracts, the share of which is big enough, as they expire. If the Group is not able to prolong the lease contracts for its stores as they expire or lease another suitable objects on acceptable terms, or if the present lease contracts of the Group are terminated for any reason (including those due to the loss of right on such objects by the lessor), or if their terms are revised to the detriment of the Group, it could have material adverse effect on its financial position and operation results.

Lack of professional building contractors may adversely affect the development strategy of the Group

The ability of the Group to construct and develop specially constructed new stores is exclusively important for its strategy and commercial success. There is a shortage of highly-skilled contractors which able to build new stores in time and in compliance with standardized requirements of the Group. There's no guarantee that in future the Group will be able to find the suitable skilled and qualified team of designers who could enable the Group to build and open new stores in time. Inability of the Group to construct and develop new stores on the

newly acquired land plots may have material adverse effect on its potential to stick to its strategy and accordingly to achieve the required financial position and operation results.

Contestation of the rights of the Group to real estate or cessation of the Group's projects for new stores construction may have materially adverse effect on economic activity of the Group and its financial position.

The operation of the Group includes the obtaining of ownerships and lease rights for the land plots and premises for the purpose of its further use for the new stores. In addition, the Group owns objects and premises where its offices are located. Russian land and property legislation is complex and often ambiguous and may contain contradictory provisions at the federal and regional levels. In particular, it is not always clear which state bodies or agencies are authorized to enter into land leases with respect to particular land plots, the procedures of construction approval are complex and prone to challenge or complete abolition, construction and environmental regulations often contain the requirements which in practice are impossible to meet in full. As a result, the ownership and lease rights of the Group for land plots and building could be challenged by the governmental authorities and third parties, and its construction projects may be delayed or cancelled.

Under Russian law, property transactions may be challenged on many grounds, including ineligibility of the property seller or right holder to dispose this property, breach of internal corporate requirements by the counterparty and failure to register the transfer of rights in the unified state register. As a result, defect in the real estate transactions may lead to invalidation of such transactions with individual property objects, and thus may affect the rights of the Group to this property.

Moreover, Russian law does not require certain encumbrances over real estate (including leases of less than one year and uncompensated use agreements) to be registered with the unified state register to make the charge legally valid. In addition, the time limits, within which the charge liable to registration in the unified state register should be entered into this register, are not stipulated in the law. Therefore, there is always a risk that the third parties may register at any moment or claim the existence of encumbrances (of which the Group had no prior knowledge) over real estate of the Group whether owned or leased.

Unionization of the Group employees may have material adverse effect on its financial position and operation results

At the present time the majority of Group employees do not league any labor unions. If the considerable part of Group employees league labor unions, it may materially affect the payroll costs of the Group and/or escalation of labor conflicts, and as a result may have a material adverse effect on financial position and operation results of the Group.

The increase of the Group's expenses may have material adverse effect on its profitability

The operating efficiency of the Company and its subsidiaries largely depend on the prices on the purchased products for retail sale products, as well as on the prices on services used by them in their operation and on the amount of rent payment for the used movable and immovable property and construction costs, acquisition and opening of the new stores. Fluctuations of the agreement and receipt of rights procedures to the land plots (including lease right), fluctuations of the norms and regulations applicable to the Group activity, town-planning, tax and environmental legislations in particular, may entail to the Company and its subsidiaries the increase of new stores opening costs or costs for the use of the premises, as well as the increase of the payback period of the stores.

The growth of the purchase prices, the growth of the installation costs, the growth of the price on land plots (other real estate) and amount of rent for their use, as well as the growth of the employees' wage may lead to the substantial growth of the Group's expenses and thus seriously affect the Company profitability in case if the Group is not able to adequately increase the sale prices due to low purchasing capacity of the population in particular. Since "Magnit" retail chain, while working with one of the most economical formats, mainly targets at the customers with the income below the average, the Group is substantially subject to the above risk.

Profitability rundown may affect the ability of the Company's relevant authority to decide on the payment of dividends on securities, and the market value of the Company securities.

The decline of goods' prices in "Magnit" stores may lead to the profitability rundown of the Group

Changes of the prices on the goods in "Magnit" stores are largely determined by the changes of the purchase prices of the Group. The Group is doing their best not to increase the mark up for the encashed products. Product price changes may affect the rate of the purchasing capacity of the population. The price growth is mainly forecasted under the inflation conditions, which as well affects the decrease of the purchasing capacity of the population. The deterioration of macroeconomic environment and the fall of the purchasing capacity of the population may also lead to the decline of selling prices. Herewith, if the purchase prices are less lowered than the selling prices, it will lead to the decline of Group profitability.

The sudden deterioration of macroeconomic situation and intensification of competition may force "Magnit" chain to cut the prices on the products in order to maintain the target turnover growth and market share, which may also lead to the profitability decline.

The prospective actions of the Company in case of industrial fluctuations

In case of one or several risks hereof, the Company will undertake all the possible measure to reduce the effect of the existing fluctuations. It deems impossible to determine the specific measures of the Group regarding any risk hereof, as it is hard to work out adequate measures due to uncertainty of further situation development. The character of the applied actions will depend on the specific situation of every case. The Company cannot guarantee that the activities taken to overcome negative fluctuations will lead to considerable change in the situation, as most of the risks hereof are out of the Company's control.

In case of deterioration of the situation in the industry sector the Company plans:

- a) if possible, to further expand its operation in order to reduce the prime cost of the goods and diversify some risks;
- b) to carry out the diversification between the most and the least perspective stores and to cut the stores with no prospects;
- c) to extend the territory of its operation choosing the most profitable regions of Russian Federation in terms of growth prospects;
- d) to carry out adequate changes in the pricing policy for keeping the demand for goods on the necessary level;
- e) to optimize the expenses;
- f) to continue engaging highly-skilled specialists as well to conclude agreements with reliable specialists only, counteragents, contractors, which makes it possible to minimize risks and carry out the detailed analysis of the scheduled Company operation in order to reduce the prime cost of the investments, minimize the expenses structure and get more profit.

COUNTRY AND REGIONAL RISKS

The company as well as CJSC “Tander” are registered as a tax-payer in the Southern Federal district, Krasnodar. The Group operates in 5 federal districts and in more than 700 locations of Russian Federation. The Group does not operate outside Russian Federation.

As the Group operates in Russian Federation, the main country and regional risks, affecting the operation of the Group and the Company, - are the risks within Russian Federation. However, due to the growth of globalization of the world economy, considerable deterioration of the economic situation in the world may lead to the serious economic recession in Russia and as a result – the reduction of the demand on the consumer goods.

In spite of the fact that during last few years all public spheres in Russia saw positive changes – the economy grew, some positive political stability was achieved, Russia is still the state with the rapidly developing and changing political, economic and financial system. The risks of the industrial production reduction, the increase of the national debt, negative dynamics of the currency exchanges, increase of unemployment, etc, still exist and may lead to the drop of the living standards in the country and negatively affect the operation of the Group, as the main target consumers of the “Magnit” chain are people with income below the average. Apart from risks of economic character, Russia is subject to the political and regulatory risks to a greater extent than other countries with the developed market economy.

Political risks:

Political instability in Russia may negatively affect the investment cost in Russia as well as the price of the Company’s shares

Since 1991 Russia moves from single-party state with the centralized planned economy to democracy with the market economy. As a result of the large-scale reforms as well as of failures of some of these reforms, Russian political system remains vulnerable to the public discontent and disorders among individual social and ethnic communities. Significant political instability may have considerable negative effect on the cost of the foreign investments in Russia including the price of the Company’s shares.

Reconsideration of reforms or state policy in respect of some individuals, may have an adverse negative impact on Company business and on investment potential of Russia

Future changes in the government, major political changes and lack of consensus between different branches of power and economic groups may also lead to the breakdown or converse turn of economic, political and judicial reforms. Any significant contradiction on the orientation of the future reforms, breakdown or resignation of reform policy, political instability and rise of conflicts between powerful economic groups may negatively affect the operation of the Group, its financial results and development prospects as well as the cost of investments in Russia and the price of the Company’s shares.

During the period of 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 orientation of future reforms or countermand of the existing reforms by a new president may lead to deterioration in Russian investment climate that might constrain the ability of Group to receive financing on the international financial markets, cut

Company sales in Russia or otherwise negatively affect Group's business, operation results, financial position and potential.

In the recent past, our law-enforcement authorities have prosecuted some Russian companies, their officials and shareholders for tax evasion and related tax offences. In some cases, the results of such prosecutions have been the imposition of prison sentences for individuals such as Yukos, TNK-BP and Vimpelcom. Some analysts consider 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 cases and do not signal any deviation from greater political or economic reforms.

Conflicts between the federal and regional authorities and other conflicts may set an unfavorable economic environment which may have an adverse effect on the operation and financial position of the Group

The distribution of powers between the federal and regional authorities, as well as between different federal authorities in some cases remains obscure. In connection herewith Russian political system is subject to certain internal contradictions and conflicts between federal and regional authorities regarding different issues, particularly tax collection, property right to land, powers to regulate individual industries and regional autonomy. Conflicts between different authorities may have serious adverse effect on the price of the Company's shares.

Besides, ethnical, religious and other segregations periodically arouse public tension and sometimes result into conflicts including armed conflicts. Thus, the continuous conflict in Chechnya led to the cessation of normal economic activity in Chechnya as well as negatively affected economic and political situation in the neighboring regions and in Russia on the whole. Terrorist activity and counter measures aimed at the elimination of violence, particularly by imposing emergency rule in certain territorial subjects of Russian Federation, may have an adverse negative effect on the potential of Russian business on the whole and Group performance in particular, especially taking into consideration the significant scale of the Group's operation in the Southern federal district.

Social instability could lead to popular frustration, induce the call of the change of powers, nationalism or violence

Failure of the Russian government to adequately address social problems has led in the past and may lead in the future to popular frustration. Such frustration might have social, economic and political consequences, e.g. call for the change of power, growth of nationalism enhanced by appeal for property nationalization, expropriation and constraints on overseas property in Russia, as well as the increase of violence. Any of these could have an adverse negative effect on confidence in Russia's social environment and investment potential, could restrict our operations and lead to losses or could otherwise affect Group's business, operation results, financial position and prospects.

Economic risks:

Deterioration of the economic situation in the Southern Federal district may arise from the considerable changes in the economic situation in Russia, including dramatic fluctuations of the national currency exchange which may result in the reduction of the number of industrial enterprises and agriculture of all forms of ownership operating in the district, unemployment growth, decrease of the purchasing power of population. Such a scenario could lead to the interruption of the investment program of the Group, slowdown of Group development on the

territory of Southern Federal district and other regions of Russian Federation, as well as the slowdown of the income basis growth.

Economic instability in Russia may negatively affect the consumer demand which may have a serious adverse negative impact on the business of the Company.

Any of the risks provided herein, which the Russian economy has previously experienced, may seriously change the investment climate in Russia and the activity of the Company:

- Significant declines in GDP;
- Hyperinflation;
- Currency instability;
- High level of state debt against GDP;
- Weak banking system which provide Russian enterprises with the limited liquidity;
- High ratio of unprofitable enterprises which continue to operate due to deficiency of effective bankruptcy procedure;
- Wide use of barter and non-liquid bills in settlements for commercial transactions;
- Prevalent practice of tax evasion;
- Growth of black economy;
- Stable capital outflow;
- High level of corruption and penetration of the organized crime in the economy;
- Serious growth of unemployment and underemployment;
- Low living standards of the substantial part of the Russian population

Russian economy has faced abrupt downturns. In particular, the period of a rapidly deteriorating economic situation after August 17, 1998 when government defaulted on its ruble-denominated securities, the CBR stopped to support the ruble, and temporary restrictions were imposed on certain foreign currency payments. These actions resulted in immediate and severe ruble devaluation and a sharp increase of inflation rate, dramatic decline of Russian share quotes and bonds as well as failure of the Russian issuers to raise funds on the international capital markets.

The problems were aggravated by almost a complete collapse of the Russian banking sector after the events of August 17, 1998, which is proved by revocation of banking licenses of a number of Russian high profile banks. This even more impaired the capacity and potential of the banking sector to a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

There is no guarantee that recent positive trends over the last years in Russian economy will continue to be positive in future.

For example, during 2005, economic growth slowed down, and the inflation rate remained high during the years of 2005, 2006 and 2007. In addition, recent fluctuations in international oil and gas prices, ruble strengthening against US dollar in real terms, and the weakening of monetary policy or other factors, may adversely affect Russian economy and Group's business, especially the expansion plans of the Group.

Physical infrastructure of Russia is in extremely poor condition which may lead to interruptions in the effective financial and economic activity

Physical infrastructure of Russia was mainly set up in the soviet times and has not been adequately funded and maintained over the last. Particularly affected are the rail and road networks, power generation and transmission, communication system and building stock. Electricity and heat deficiency in some regions of Russia dramatically disrupted the local economies. For instance, May 2005 power-substation failures of May 2005 resulted in power cut

in Moscow and neighboring regions and thus in the heavy damage of economy of Moscow and corresponding regions.

Road conditions throughout Russia are also poor, and in some areas roads do not meet minimum requirements of security standards.

The deterioration of Russian physical infrastructure damages the national economy, disrupts goods and cargo transportation, adds costs to business activity in Russia and may lead to interruptions in financial and economic activity thus negatively affecting the business of the Group.

The fluctuations of global economy may negatively affect the economy of Russia, limiting the access of the Company to the capital and negatively influencing the purchasing power of the final consumers of the products sold by “Magnit” chain stores

Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. By former practice, financial problems or exacerbated perception of risks concerning investment in countries with developing economy might reduce the volume of foreign investments in Russia, thus affecting Russian economy. As Russia produces and exports large quantities of natural gas, oil and other energy and mineral resources, Russian economy is especially vulnerable to commodity prices, and decline in such prices may slowdown or shake economic development of Russia. These developments may severely limit Group access to capital and have an adverse negative effect on the purchasing power of consumers to buy goods sold by the Group.

Social risks:

Social instability may lead to the increased support of resumption of the statism, nationalism and violation, having serious negative effect on the opportunities of the Group to effectively operate its business

Social instability may lead to the increased support of resumption of the statism, nationalism and violation, having serious negative effect on the opportunities of the Group to effectively operate its business. Inability of the government and many private companies to pay out the full salaries in time, and altogether arrears of salary and benefits, which were a result of rapidly growing living costs, led in the past and may lead in the future to riot risk. For example, in 2005 groups of Russian pensioners and some public organizations held protest actions all over Russia against benefits monetization, and temporarily blocked the roads. Similar actions, labor and social disorders may have negative political, social and economic consequences including the nationalism growth, imposing limitations on the foreign share in Russian economy and the violence growth. All of the events herein may lead to the restrictions on activity of the Group and loss of its profits.

Crime and corruption may have an adverse negative effect on the operation and financial position of the Group

The local and international press has reported that the level of the organized criminal activity has considerably grown, particularly in large metropolitan centers. The amount of property-related crime increased in large cities as well. Russian business often involves high level of corruption among officials. Additionally, diverse publications indicate that some members of the Russian media regularly publish planted articles for remuneration. The Group activities may be affected by the illegal actions, corruption and accusation of the Group of illegal operation and therefore have negative impact on the Group operation and price of Company's shares.

Legal risks related to the Russian Federation:

Weakness of the Russian legal system and imperfection of the Russian legislation create an uncertain environment for investments and business activity

Effective legal system required to support market economy functioning in Russia is still developing. Many key laws have only recently become effective. Insufficient consensus regarding the amount, contents and time limits of economic and political reform, rapid development of the Russian legal system which did not always coincide with the trend of the market relations development, and in a number of cases resulted in ambiguity, noncompliance and inconsistency of the law regulatory and by-laws. Moreover, Russian legislation very often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regular infrastructure. In some cases the new laws and regulations are ratified without complete consideration by the interested parties of the civil law circle and do not contain any adequate transitional regulations, which lead to serious difficulties when being applied.

Drawbacks of the Russian legal system may affect the ability of the Group to exercise its legal rights under the agreements or to defend against claims from the third parties. There is no guarantee that the state and judicial authorities, as well as third parties, will not go against Group's meeting the requirements of laws and by-laws.

Risks related to the fiscal policy of the Government of Russian Federation:

The Company pays taxes into the federal, regional and local budgets. Within the economy transformation there is a risk of changes of the enterprise activity tax treatment, tax legislation and peculiarities of tax registration in Russia often change and bear ambiguous interpretation. The process of tax legislation reforming has not been completed yet. In case of stiffening of the tax legislation and increase of tax burden, the financial position of the Group may deteriorate.

Risks related to the possible military conflicts, state of emergency and strikes in the country and regions, where the Company is registered as a tax payer and/or operates:

The Company is a registered taxpayer and operates mainly in the Southern Federal District. Politico-social risks are of primary concern for the Southern Federal District due to trouble spots on the frontiers of territories of the Northern Caucasian republics and closeness of the Chechen republic. Major risks are connected with the fact that private capitals (investments) may be nationalized in case of a sudden change of policy line or destroyed in case of armed conflict.

However the major part of the Southern Federal District is occupied by the subjects of Russian Federation with favorable business development conditions and with the regional risk level of not below the average throughout the country. It's worth noting, that the Company does not operate on the territory of Chechen republic and Ingushetiya, social and political instability of which substantially aggravate the integral index of the Southern Federal District risks.

Practically all the Northern Caucasian Republics face substantial social-ethnic instability, economic and political risks remain high. Herewith the South of Russia is characterized by the rapid growth of industrial production, accommodation provision is in high gear, increase of the disposal income of population, and the financial market of the regions is having a significant part in the picture.

Russian Federation is a multinational country, consisting of the regions with different social and economic development levels; in connection herewith it is impossible to completely eliminate the possibility of internal tension in Russia including the armed conflicts. The Company as well cannot absolutely exclude the risks related to the emergency state.

Risks related to the geographical peculiarities of the country (countries) and the region, where the Company is registered as a tax payer and/or perform the main activity, including increased danger of natural disasters, possible stop of transport connection due to remoteness and/or inaccessibility, etc.

According to Ministry of Emergency Situations of Russia, factors of man-caused, natural or terrorist character are one of the most real threats to the stable social-economic development of the country, increase of the living standards of population, security-building measures of Russian Federation.

The terrorist status, recently escalated, leads to the continuous threat of terrorism acts on the whole territory of the Group's operation.

The regions with the Group presence may face the drastic consequences of conflagrations on the economic objects and in the public sector, accidents and failures of utility systems and transport, natural fire, dangerous hydro-meteorological phenomena (strong winds, frosts, heavy snowfalls and heavy rains), earthquakes, land subsidence and sinkhole collapse, contagion outbreaks among people and animals. Exposure to natural and climatic risks, including natural disasters (hurricane, floods, earthquakes, etc) is distinctive geographical feature of the Southern Federal District.

The risk of possible stop of transport connection due to remoteness and/or inaccessibility, etc, should not be eliminated regarding the geographical peculiarities of the region.

Ecological risks:

Accidents at hazardous industrial facilities of Russian Federation and environmental pollution may have an adverse negative effect on the Group activity

In respect of all four components of the environment (air, water sources, soil and land resources, wildlife) in large industrial cities, the ecological situation is unfavorable for population inhabitation. According to some reports, up to 15% of the territory of Russia are zones of ecological catastrophe. The above factors negatively affect the health of the country population. Moreover, nuclear and other dangerous objects are located on the territory of Russia, while the system of control over ecologically dangerous object status is not sufficiently effective. The rise of emergency state on these objects and an unfavorable ecological situation in large Russian industrial cities may have an adverse negative effect on the Group activity.

Prospective measures of the Company in case if changes of the situation in the country and region will have an adverse negative effect on the Group operation:

The majority of the risks, provided herein, of economic, political and legal character are out of the Company's control due to the global scale of the threat they present.

The Companies of the Group have reached the certain level of financial stability which helps to overcome the short-term negative economic fluctuations in the country. In case if significant political and economic instability, which will negatively affect the operation and the profit of the Group, arises in Russia, the Company plans to undertake comprehensive measures of Contingency Plan Administration aiming at mobilization of the business and maximum

reduction of the negative effect of political and economic situation in the country and region on the business of the main companies of the Group.

It deems impossible to determine the specific measures of the Group regarding any risk hereof, as it is hard to work out adequate measures due to uncertainty of further situation development. The character of the applied actions will depend on the specific situation of every case. Company cannot guarantee that the activities taken to overcome negative fluctuations lead to considerable change in the situation, as most of the risks hereof are out of the Company's control.

However, in case of negative effect of the country and regional fluctuations on the Group operation, the Company plans to carry out the following common arrangements to maintain the Group's profitability:

- if possible, to save main assets until the situation improves;
- to undertake measures focused on the life support of the Group employees, on the productivity of the Group;
- To carry out adequate pricing policy adjustments to keep up the demand on the products on the proper level;
- To optimize the expenses, including measures on purchasing prices reduction and wages expenses limitation;
- To revise the program of capital investment.

To minimize the risks related to the force majeure circumstances (military conflicts, riots, natural disasters, state of emergency), the Company takes into account the possibility of such events within its contract activity.

The Company acts under paragraph 401 of the Civil Code of Russian Federation which states that the person, who does not exercise the obligation due to insuperable force, provided herein, does not answer to the contracting party.

To reduce the above risks the Group plans to further operate in different regions of Russia to diversify the risks.

FINANCIAL RISKS

Risks related to the changes of the interest rates, foreign currency exchange rates, related to the Company's operation or hedging carried out by the Company to reduce unfavorable consequences of the risks indicated above:

The Company is exposed to risks related to the changes of the interest rates. Loan funds have become the main funding sources of the development of the Group companies and expansion of its resource base. Changes of the interest rates may have substantial negative effect on the operation results of LLC "Magnit Finance", other companies of the Group and the Company due to the loan of funds and provision of the debt financing on the repayable basis.

Group does not export its production; all its primary obligations are denominated in rubles. Import products amount to about 5% of proceeds, which makes the Company dependent on the possible foreign exchange movements.

Exposure of the financial position of the Company, its liquidity, funding sources, operation results, etc., to the foreign exchange movements (currency risks)

For the last fifteen years Russia has faced considerable fluctuations of the exchange rate of Russian ruble to the foreign currencies. Substantial ruble devaluation may result in the reduction of the relative cost of ruble-denominated sales and assets of the Group, such as bank deposits and accounts receivable. Additionally, fall in the exchange rate of the ruble may lead to the decline of the dollar cost of tax deductions arising from the actualization of capital investments, since the balance sheet assets will reflect their mark-up in ruble terms at the moment of acquisition.

Group does not export its production; all its primary obligations are denominated in rubles. Import products amount to about 5% of proceeds, which makes the Company dependent on the possible foreign exchange movements. In case of such fluctuations, the Group is able to modify the structure of goods sales in favor of Russian counterparts, which may potentially reduce the sales growth rate. Thus, the incurrence of such risk may have an adverse negative effect on the Group's revenue and profitability.

The Group purchases and plans to continue purchasing the import equipment and vehicles for foreign currency, thus considerable decline of the ruble exchange rate may lead to the increase of the Group expenses in ruble terms and negatively affect the results of its operation.

Drastic changes of the exchange rate may have an adverse negative effect on the country economy on the whole, and lead to the reduction of the solvent demand.

Prospective measures of the Company in case if currency fluctuations and interest rates have an adverse negative effect on the Group operation

In case if movements of exchange rate and interest rates are negative for the Company, it is expected to carry out tough policy of cost cutting. However, it should be taken into consideration, that the risk cannot be completely evened, since the indicated risks mainly lie beyond Company's control, but depend on the general economic situation in the country.

Inflation effect on the payment on securities. Inflation indices which the Company considers to be crucial, and potential measures which may be undertaken by the Company to reduce risks specified herein

The Company faces inflation risks, which may have an adverse negative effect on its business activity. The purchasing prices on the products depend on the overall price level in Russia. The acceleration of inflation growth may affect the financial performance of the Group. The growth of the purchasing prices may lead to the further increase of retail prices on the products and goods sold by the OJSC "Magnit" and its subsidiaries, and as a result impair the competitive environment of the Group.

If the exchange rate of the ruble to the US dollar increases simultaneously with inflation, the Group may face costs increase in dollar terms on certain budget items, for instance, payroll expenses which is vulnerable to the growth of the overall price level in Russia. In such a situation in view of inflation thrust, the Company may not be able to raise prices on its products reasonably in order to retain the operation margin. Accordingly, high inflation rate in Russia may result in the increase of the Group expenses and decline of the operation margin. Inflation growth in Russian Federation will entail the overall growth of the interest rates including rates on the ruble bonds of LLC "Magnit Finance" which may oblige the Group to adequately increase the coupon rates.

Inflation indices which the Company considers crucial

The 30-35% level of inflation is considered critical by the Company. The serious acceleration of the price increase rate may lead to the growth of Company's expenses, loan funds costs, and result in the earnings dilution. Therefore, in case of dramatic excess of actual

inflation indices over the forecasts of the Russian Federation Government, the Company plans to assume all required measures to limit the other expenses growth (not related to the purchase of the products for selling), to reduce the accounts receivable and its average term.

Risks arising from bank operations:

Russian bank system is underdeveloped, a new bank crises may have an adverse effect on the operation of the Group and its financial position

Russian banking and the other financial systems are not properly developed and regulated, and Russian legislation on banks and bank accounts is interpreted ambiguously and applied not homogeneously. Financial crisis of August 1998 led to the bankruptcy and liquidation of many Russian banks and almost destroyed the developing market of the commercial bank credits which was functioning at that time. Moreover, many Russian banks do not meet the international banking standards, and the transparency of the Russian bank sector in several respects falls behind the generally accepted international standards of bank transactions. Due to the lack of close supervision from the regulatory authorities, individual banks do not follow the requirements and regulations set by the Central Bank, concerning the governing criteria for credit accommodation, credit quality, reserve balances in case of losses on loans or diversification of the borrowers' structure. As a rule, bank deposits made by legal bodies are not insured in Russia. Stiffening of the regulations or interpretation of the operative rules may result in capital risk and insolvency of individual banks.

Lately we've faced a rapid growth of the joint crediting provided by the Russian banks, which is considered by the majority to be accompanied by the deterioration of the crediting quality. Moreover, the stable growth of the internal market of corporate debts leads to the accumulation in the investment portfolio of Russian banks of more and more ruble bonds issued by the Russian companies, which even more aggravates the risk characteristics of Russian banks' assets.

Grave disadvantages of the Russian bank sector together with the deterioration of the credit portfolio quality of the Russian banks may lead to the exposition of the bank sector to the negative influence of the market trends recession, economy growth retardation, including defaults of Russian companies, which may arise from such any market trends recession or economy growth retardation. Furthermore, in 2004 the Central bank withdrew licenses of a number of Russian banks, which aroused rumors on the market about closing of another number of banks. As a result many depositors rushed to withdraw their savings. In case of bank crisis, Russian companies will face severe deficit of liquid funds due to the limited savings inflow to the domestic banks and loss of opportunity to use foreign financing sources which might occur in the time of a such-like crisis.

At the moment the majority out of a limited number of sufficiently trustworthy Russian banks are located in Moscow. The Group tried to reduce its risks by receiving and keeping its ruble cash assets with several Russian banks, including Sberbank, Alfa-bank, OJSC Commercial bank "Uralsib – Yugbank", Unicredit, and with subsidiaries of foreign banks, including CJSC BSGV, CJSC Reiffeisen, however insolvency of at least one of the banks may have a substantial adverse effect on the business activity of the Group. In case of a bank crisis or if the banks, where the Group holds its funds, become insolvent or declare bankrupt, it may entail a failure to access the cash assets or inability to exercise bank transaction in Russia, which in turn may have a material adverse effect on the business activity, financial position and operational results of the Group.

Risks related to the transfer pricing:

Ambiguity of law on transfer pricing regulations alongside with deficiency of accurate and authentic information about the market prices may have an adverse effect on the financial performance of the Group business.

Russian law on transfer pricing regulations, which came into effect in 1999, provides for that taxation authorities and administration have the right to make allowance for transfer pricing and to levy additional taxes in case of discrepancy between the price and market price for more than 20%. Since Russian law on transfer pricing regulations is not precise enough, taxation authorities and arbitration courts have freedom in interpretation of applicable regulations. Due to the ambiguity of transfer pricing regulations, taxation authorities may challenge the prices of transactions of the Company and its subsidiaries, adjust the assigned taxes.

Financial report statements of the Company which are mostly subject to changes under the foregoing financial risks. Risks, probability of occurrence and nature of changes in accounting

The amount of expenses and profit is mostly exposed to the influence of the foregoing financial risks. In case of adverse change of the situation, first of all, the expenses will grow which will entail profit reduction, correspondingly.

In case of inflation growth and/or currency rate growth and therefore the expenses growth, the Group may increase the prices on the products for sale.

In case of negative effect of fluctuations of the exchange rate, inflation and interest rates on the operation of the Group, it plans to take the following measures:

- To revise the financing structure;
- To optimize the spending segment of the operation;
- To revise the programs of capital investments and loans;
- To take measure to increase the receivables turnover.

At the moment hedging of the foregoing risks is not carried out.

Liquidity risks:

The risks provided herein create the liquidity risk, i.e. the risk of bearing losses due to lack of funds within the established terms and as a result, risk of inability of the Group to fulfill its obligations. Such risk event may entail penalties, fines, injury to the goodwill of the Group, etc.

The Group exercises liquidity risk management through analysis of the estimated cash flows.

Exposure of the financial report statements to the foregoing financial risks:

Risks	Degree of probability	Nature of changes in the report
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Interest rates growth	medium	Interest rates growth will increase the loans' price for the Group, thus it may have an adverse effect on the Group's financial position, particularly, it will increase the operating expenditures of the Group and impair its profit.
Inflation rates growth	medium	Inflation rates growth will lead to the increase of the prime cost expenses (raw commodities costs, payroll expenses, etc.). At the same time, the acceleration of the inflation rate growth will result in the growth of the consumer prices on the Group products and correspondingly increase the sales of the Group in such a manner, that the portion of the Group expenses will be compensated by the increase of the product prices. Such inflation will also lead to devaluation of the real price on the ruble bonds.
Movements of the exchange rate of US dollar to ruble	medium	It does not produce strong effect, as the main profits and losses of the Company are denominated in rubles.
Liquidity risk	low	Failure of the Group to fulfill its obligations in due time may entail the payment of penalties, fines, etc., which will result in unscheduled expenses and reduce the Group's profit. In connection herewith, the Group carries out the policy of estimating the cash flows.

LEGAL RISKS

Risks related to the applicable standards of corporate governance

Certain transactions with participation of Group companies may be declared transactions with the interested parties. Similar transactions may, in particular, include final products sales and purchase agreements, purchase of shares, service provision. If challenging of such transactions and actual ratifications to such transactions are approved in favor of the petitioner, or otherwise the Group companies will be prevented in the future from getting the approval to the transactions which require special approval under legislation of Russian Federation, it may limit the flexibility of Group companies in the operating issues and have an adverse effect on the Group's operational results.

In practice corporate governance standards remain underdeveloped in many Russian companies, minority shareholders of such companies may have difficulties in exercising their legal rights and bear losses. Though the shareholder owning not less than 1% of the company's placed shares has the right lodge a complaint against the management, which caused damages/losses to the company, under the Federal Law "On Joint-Stock Companies", Russian courts have poor experience in dealing with such claims. Correspondingly, the real opportunities of the investor to get the compensation from the issuer are limited. As a result the protection of minority shareholders rights is limited.

Civil code and Federal Law "On Joint-Stock Companies" provide for that joint-stock company shareholders are not responsible for its obligations, and are only exposed to risks of investment losses. However, in case if the legal entity became bankrupt due to the actions of the

shareholders (participants), owner of the legal entity property or other bodies which are entitled to duly instruct or otherwise rule the legal entity, these bodies may be subject to holding subsidiary liability for obligations of the legal entity in case of insufficiency of legal entity property. Consequently, the Company being a parent company to its subsidiaries with more than 50% of the charter capital directly or indirectly owned by the Company, it may be entitled to the responsibility for the obligations in the foregoing cases. Responsibility for subsidiaries' obligations may have a material adverse effect on the Company.

Ensuring shareholders with rights under the Russian legislation may entail additional expenses and may result in the degradation of the Company financial statements. According to the Russian legislation, shareholders voted against or not participated in voting on certain issues, have the right to demand from the Company the redemption of their shares at the market price under the Russian legislation. Such right is provided to the shareholders voted against or not participated in voting at voting on the following issues:

- reorganization;

- major transaction which is to be decided on and approved by the general shareholders meeting;

- incorporation of amendments restricting the shareholders rights in the articles of Association or ratification of the articles of Association as amended;

Company liabilities on redemption of shares may have an adverse material effect on the cash flows of the Company and its ability to handle Group's debts.

Risks related to the currency regulation and control:

Russian legislation on the investors' rights protection is less favorable and developed than the legislation of other countries with developed market economy. Moreover, the investors may face in future the risk of adverse changes in legislation. The profit of the foreign investors received from investments in the Company's shares may be taxed in accordance with the Russian legislation. Degradation of the whole economic and political situation in the country may lead to the toughening of the currency regulation and control norms and limitations of the operations with the Company's shares.

Return revenue of the foreign investors from the investments into the Company equities may be liable for taxes according to the Russian legislation. Deterioration of economic and political environment may result in tightening of currency regulation and control standards and in the restrictions on the shares-related business activity of the Company.

Risks related to the changes in currency regulation

Foreign Exchange legislation of Russia is exposed to quite frequent changes. In connection herewith risks of regulation procedure changes in execution of a number of exchange operations may occur. Considerable fluctuations in currency regulation and currency control legislation may impede Company's performance of obligations under the agreements with counterparties. The risks herein are considered by the Company management to have the same effect on the Group as on all other subjects of the market.

Risks related to the changes in tax legislation:

Tax legislation of the Russian Federation is subject to the relatively frequent changes. The risks herein are considered by the Company management to have the same effect on the Group as on all other subjects of the market

The following changes may have an adverse effect on the Group's operation:

- Incorporations of amendments on the tax rates increase in legislation acts on taxes and charges;
- Imposing of new types of taxes.

The foregoing substantial and other changes in tax legislation may result in the increase of the tax payments and consequently in the reduction of the Company net profit. Changes in the Russian tax legislation may have an adverse material effect on the appeal of investing in the Company shares.

Russian companies are making substantial payments on a great amount of taxes. These taxes include, in particular:

- Income tax
- Value added tax;
- Excise taxes;
- Consolidated social tax;
- Land tax;
- Property tax.

Legislation regulations and by-laws governing the foregoing taxes do not have a big application practice compared to the other countries; thus, the law enforcement practice is often ambiguous or has not been formed yet. At the moment we have only a limited number of commonly accepted interpretations and explanations of tax legislation. Different ministries and authorities often have different opinions on the interpretation of the tax legislation, thus creating ambiguity and grounds for the conflict. Tax declarations and some other legal papers, e.g. customs documents, according to the legislation may be checked and examined by different inspectors who have the right to charge penalties, fines and interests for the arrears of payments.

Generally the completeness and accuracy of the tax payment may be verified within three years upon the tax year expiration. The fact of tax verification for any year leaves open the possibility of verification of the same declaration again within a three year period. These factors create the Russian tax risks which are considerably higher than the usual risks in the countries with a more developed taxation system.

The tax system in Russia changes on a frequent basis, and the tax legislation is inconsistently applied on the federal, regional and local levels. In some cases new tax rules cause the retroactive effect. In addition to the material tax burden, these circumstances complicate the tax planning and making the correspondent decisions. In spite of the ambition of the Group to comply with the legislation, inaccuracy of the legislation puts the Group at the risk of payment of considerable penalties and fines and may lead to the tax burden increase. Today the tax collection system is relatively ineffective, and the government may have to introduce new taxes to increase its profits. Thus, the Company may have to pay considerably higher taxes which may negatively affect the business activity of the Company. In recent years the taxation system of Russian Federation met significant fluctuations under the tax reform. New laws reduced the number of taxes and the general business tax burden, as well as simplified tax legislation. However, new tax legislation still gives freedom to the local tax authorities and creates a number of undecided questions, which complicates the tax planning and making the correspondent decisions.

Financial statements of the Russian companies for the purpose of tax accounting are not consolidated. Thus, every Russian legal entity pays Russian taxes separately and cannot use the losses of other companies within one group to reduce the tax burden.

Risk related to the inability of the foreign investors to take out return on shares

Today Russian legislation on dividends payment provides for that dividends on shares in ruble terms may be distributed to the shareholders without limitations. The ability of foreign investors to convert rubles into any freely convertible currency (FCC) depends on the availability of such currency on the Russian exchange markets. Though the market for conversion of rubles in FCC exist in Russia, including interbank currency exchange, after-markets and currency futures markets, the future development of this market remains obscure. At the present time no market for conversion of rubles into the foreign currencies outside Russia or any viable market outside Russia for hedging investments in rubles and investments denominated in rubles.

Risks related to the changes of the rules of customs clearance and duties:

Changes of the rules of customs clearance and duties may entail the increase of the purchasing prices on the imported goods and as a result the reduction of the Group profit.

Risks related to the changes of requirements of licensing of the Company main activity or licensing of the use rights for the objects the turnover of which is limited:

The primary activity of the Company – the coordination of Group companies' operation, the lease of property and retail business - is not a subject to licenses. The companies of the Group have licenses for retail of alcohol beverages consumed not on the spot of purchase and pharmaceuticals without manufacturing rights. In case of changes of requirements for license, the Company will operate under the new requirements including the license conversion and new licenses receipt.

Risks related to the changes of judicial practice on the issues of the Company activity (including licensing issues), which may have an adverse effect on the results of the Company operation as well as on the results of the current legal proceedings to which the Company is a party:

The Company and other companies of the Group do not participate in legal proceedings which could have a substantial material effect on the financial and economic activity of the Group. However, the changes of the judicial practice on the issues of licensing, consumer protection, property rights protection, taxation and other issues of vital importance for the Group operation, may adversely affect the results of its operation if the corresponding lawsuits arise.

RISKS RELATED TO THE COMPANY'S OPERATION

Risks peculiar to the Company only

Risks related to the current legal proceedings to which the company is a party

In the last couple of years the Group has not participated in legal proceedings, which could have an adverse material effect on the Group financial and economic activity.

Risks related to the impossibility of extension of the Company license for performance of a certain type of activity or for use of objects the turnover of which is limited (including natural resources)

The primary activity of the Company – the coordination of Group companies' operation, the lease of property and retail business - is not subject to licenses. The Group encashes a large mix of products, and today retail of alcohol beverages and pharmaceuticals are subject to licensing for all the Group enterprises engaged in such an activity. The companies of the Group have licenses for retail of alcohol beverages consumed not on the spot of purchase and pharmaceuticals without manufacturing rights. In case of changes of requirements for license, the Company will operate under the new requirements including the license conversion and new licenses receipt.

In the last three years no breaches and violations of requirements on licensing by the Company, which could result in refusal to extend the license term, were fixed.

Risks related to the possible liability of the Company on the third party debts including the subsidiaries of the OJSC "Magnit":

The Company together with CJSC "Tander" (the main operating company of the Group regulating the trade block and the centre for Group profit consolidation) stand security of the bond loans of LLC "Magnit Finance" at the amount of 2 billion rubles and 5 billion rubles, the issue aim of which is refinancing of short-term debt of the Group and carrying-out of the Group investment program on "hypermarket" format expansion. The warrantee is presented in the amount of the total nominal value of the bonds and aggregate coupon profit on bonds. If LLC "Magnit Finance" is not able to perform the obligations on the bond loans in full, this will have negative unfavorable consequences for the Group operation.

Risks related to the possible customer loss, with which the turnover amounts to not less than 10 percent of the total sales of products (works, services) of the Company:

The consumers of the OJSC "Magnit" services are its subsidiaries. Therefore, the operation of the Company and the risk of loss of its main consumers are determined by the financial condition and the position of the Group.

Other risks related to the Group operation

Risks related to the possible restriction of competition:

Russian legislation limits the activity of the bodies which occupy the dominating position on the market. If any of the Group companies is declared the body occupying the dominating position, its activity (including pricing activity) may be restricted. Such situation may have an adverse effect on the economic activity of the Group and its regional expansion strategy.

Risks related to the implementation of the long-term strategy of the Group:

One of the main components of the long-term strategy of the Group is the expansion of existing store chain. The expansion of the chain will have the following directions: within the existing formats, and the introduction of the new formats to the market. From the geographical position the chain will expand within the traditional framework of the Southern region as well as in the other regions of Russia.

The strategy success will depend on a number of factors within and out of Company's control. The factors include:

-Ability to raise enough funds for the capital investments exercise. If the Group fails to raise enough funds for trading chain expansion at the estimated scale, the Group may have to considerably limit the scale of expansion and stay in disadvantageous position against the

competitors who will develop their business activity faster, which may lead to the loss of the market share and deterioration of the operation results;

-Ability of the operating professional team to carry out the projects of business expansion and subsequently to manage it. The abilities of the operating management team may turn out to be insufficient for maintenance of the operation productivity in conditions of dynamic expansion. Business expansion entails the increase of complexity in managing the Group in operation terms and of the load upon employees. Therefore, the improvement of operational and financial systems will be required together with control measures and procedures. Furthermore, the purchasing system, logistics, information technologies, accounting, financing, marketing and sales will need to be revised. If the Group fails to update the management system in time, it may adversely affect the business activity, operating results and financial position;

-Success of the Group regional expansion will largely depend on its ability to identify attractive opportunities on the markets with the expected growth, on the ability to successfully implement product mix matrix which is optimal for each region and establish the purchasing system as well as on ability to manage the operation on the new local markets. Thus, the Group may not achieve the expected profit and/or lose the part of the funds, invested in the new projects;

-Carrying out of the effective marketing strategy which will provide not less effectiveness sales or insignificant decline of sales than the Group faced in the past. Due to the increase of the industrial competition, the effectiveness of the Group marketing measures may considerably decrease which will reduce the amount of its customers and consequently reduce the sales turnover. The chain expansion on the territory of one population centre may result in the internal competition which will lead to the reduction of the sales turnover in the average among the stores of the Group;

-The Group growth strategy provides for changes in the business activity model concerning the ownership rights on the sales areas. With the development of the operating formats, the Group will carry out the independent construction/acquisition of premises and purchase the equipment for the stores, which will mainly affect the structure of its assets and operating results and, therefore, the performance indicators;

Availability of the necessary areas and land plots for new stores opening. The market may not have the sufficient number of areas suitable for store constructions, which may slowdown the expansion strategy against the expected tempo and result in the loss of the Group market share in favor of competitors;

Competition level at the moment of the Group store openings in the corresponding regions may turn out to be too high for Group to penetrate, which will not allow to achieve the required profitability level;

Geographical expansion may turn out to be not successful as it was expected, which may have an adverse effect on the Company business and profitability.

The risk related to management members' loss and failure to engage the qualified employees in the future:

The future success of the Group will largely depend on the ongoing cooperation with the top management of the Group, in particular with the following directors: Vladimir Gordeychuk, Alexander Prisyazhnyuk, Andrey Arutyunyan, Nikolai Panuli, Eduard Smetanin, Valeriy Butenko. Under the labor contracts between the Group companies and the bodies indicated above, they have right to resign office by filing the notification 1 month before the

dismissal. The Group is not insured from the damage which can be caused to the Group with the loss (discharge) of its leading specialists and top managers.

The Company strives to hire the most qualified and experienced personnel, and adjust its compensation packages according to the changing standards of the Russian labor market.

The loss of one or more managers or failure to attract and motivate extra highly skilled employees required for effective management of a large-scale business may have material adverse effect on the business activity, the operating results and financial position of the Group.

Risks related to the accounting and control system:

The system of financial and management reporting of the Group, which is operating, is based on the volume of operations carried out by the Group within the certain period of time. In case of substantial business expansion of the Group, the technical level of the accounting and control system may fail to meet the requirements of the information processing efficiency and lead to the delays in receiving the adequate data for making tactic and strategic management decisions and, thus, damage the effective operation of the Group.

The risks related to the computer network failure:

The management and processing of operational and financial information in the Group is carried out with the use of electronic devices of information transmission and processing including the network of the personal computers, access to Internet and the system of financial accounting and automated system of commodity stock management. As a result operational effectiveness of the Group as well as its ability to display adequate data for making the right management decisions depend on the correct and stable work of computer and information networks.

The systems and their functioning may fail to operate, which may be caused by the human factor, natural disasters, blackouts, computer viruses, premeditated vandalism acts and similar factors. There is no guarantee from serious breakdowns and delays in the future. Any blackout in computer network or system breakdowns and delays may lead to the sudden service interruptions, failures in the commodity stock registration system, the reduction of the customer service quality and damage to the goodwill of the Company, mistakes in the management decisions which may result in loss of customers, the growth of operating expenses and financial losses.

Risks related to the operations with the big cash flows:

The specific character of the Company business activity and the present level of the bank sector development in Russia presumes that the substantial part of the group operations is executed with the cash funds. In connection herewith the risk of short payments caused by the premeditated actions of the Group personnel as well as by deliberate larcenies and robberies increases.

Risks related to the electronic payments:

Today operations with credit and debit cards of the natural persons are not widely spread in Russian Federation.

Risks related to the sale of private label products:

As a way of attracting customers and strengthening of the consumer loyalty for private label, the Group plans to continue the sale of private label products. In connection herewith probability of potential claims of customers to the quality of the Group private label products arises. High products quality – one of the most important conditions of the private label, and

the chain operators will be exposed to serious risks while promoting poor quality products under private label. Claims to the quality or other characteristics of such products may dramatically damage the image of the Company on the whole, damage the brand attractiveness for the Company customers and lead to considerable financial losses.

Risks related to the quality of the sold products:

There is a risk related to the responsibility of the Group for the quality of products sold in the Group's stores as well as the risk of filing a claim due to the damage to life and health. According to the agreements with the majority of the suppliers, the producer takes the material liability for quality of the sold products, providing that the Group follows the necessary storage conditions. Such claims may also be addressed to the seller of the above products at the complainant option. Any such situation may damage the Company's image and reputation, reduce the market share of the Group and negatively affect the financial position of the Group. Moreover, there is a risk related to the careless attitude of the Group personnel to the storage conditions of the products, which may lead to material liability of the Group under such claims.

Risks related to the protection of intellectual property:

If the Group fails to protect its rights for the intellectual property or withstand the claims of the third parties for the intellectual property connected with the violation of their rights, the Group may lose its rights or bear serious responsibility for damages

For execution and protection of its rights for intellectual property, first of all the Group relies on the author's rights, trade marks rights, legislation of the commercial secret information protection, on its users policy, on the license agreements and the restrictions on the information disclosure. Despite the above precautionary measures, the third parties may illegally copy or otherwise receive or use the intellectual property of the group. On the whole Russia does not provide enough protection of the rights for the intellectual property compared to many other countries with the developed economy. Failure of the Group to protect the rights for the intellectual property from violation and misappropriation may adversely affect its financial position and the ability of the Group to develop its business operation. Moreover, the Group may be involved in the legal proceedings on protection of its rights for intellectual property or to establish the validity and the size of the rights of the other parties. Any lawsuit may lead to substantial expenses, distraction of the management and of the Group resources, which may negatively affect the operation and financial position of the Group.

Carrying out of the underdeveloped policy on the provision of the interests in the intellectual property of the Group may seriously complicate future business activity

The Group is on the stage of intensive development and expansion of all its operation spheres. Measures of securing the rights of the Group to certain objects of intellectual property have to be taken on the basis of the existing plans of commercial development and go ahead of any commercial activity. Insufficient experience of the Russian companies in elaborating the policy on the objects of intellectual property creates the whole group of risks with unfavorable effect, including the inability of the Group to use the developed trade marks for individual products (services) in a number of countries, conflicts with employees, involved specialists and organizations in connection with determination of the rights on jointly created products and differentiation of the use rights on these products by the Group and other persons.

The trade mark "Magnit" is used by other participants of the sales turnover as a component of the company name, which may have an adverse effect on the operation of the Group

The Group invested considerable funds in the promotion of its "Magnit" brand on the Russian market, which is also the part of the company name of the products issued by the Group under its private label. Due to "Magnit" brand the Group achieved great success in its operation.

Meanwhile, the trademark "Magnet" in Latin letters is registered in the name of the third party in the certain classes. Today, the volume of the legal assistance provided by the Russian trademarks rights for trading organizations is not clarified. A certain risk of interests conflict between the owners of the trademark "Magnit" (or "Magnet") definitely exists, in connection herewith the Group might be forced to re-brand its stores. The expenses for such re-branding may adversely affect the operation results of the Group.

Moreover, due to the fact that Russian legislation provides the limited protection of the company names on the market, there exist a number of other organizations using "Magnit" in their names. Business activity of some of them has the partially similar features to the operation of the Group. The Group cannot stop these organizations from using such names, and this may lead to the negative affect of these companies' activity on the business activity and reputation of the Group.

Risks related to the development of a new brand:

The expansion strategy of the Group presumes the growth of the sales share of the products under "Magnit" brand ("for "Magnit" stores"). At the end of the year 2007 this figure amounted to 12.1% of the turnover. The scheduled growth may turn out to be unachievable if the commercial expenses for popularization of such brand will considerably exceed the existing budget of the Group. Alongside with it, the creation of the new brands may weaken the existing brands and require additional investments for maintaining their market position.

Risks related to the insufficiency of insurance coverage for damages arising in connection with the interruption of activity, causing damages to the Group's property or responsibility to the third parties:

Insurance may turn out to be ineffective

The Group does not implement insurance for cases of the interruption of its business activity, bringing to responsibility for products quality, fire (except for commodity stocks and supplies) or changes of key management, and does not enter into insurance agreements on non-movable assets, warehouse depot, stores or commodity stocks stored at the warehouses (with rare exception). Moreover, the Group does not establish special reserve or other funds to cover the possible losses or meet the requirements of the third parties. Thus, such events may drastically disrupt the Group operation, cause considerable damages and/or require expenses which will not be compensated. All the foregoing circumstances may have an adverse effect on the business activity of the Group, its financial position and prospects.

A severe accident may result in substantial property losses and incapability to restore it

If in case of severe accident one or more objects of the Group (e.g. the headquarters in Krasnodar, wholesale depot or hypermarket) are seriously damaged, the Company may not be able to resume its activity within the established time period. The Group does not exercise the insurance or create special funds to cover such accidents. Any such accident may have an

adverse effect on the Group business activity, its operation results, financial position and prospects.

16. INFORMATION ON THE COMPLIANCE WITH THE FFMS CODE OF CORPORATE CONDUCT OF RUSSIAN FEDERATION ²

№	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
General Shareholders' Meeting			
1.	Notification of shareholders on holding of the general meeting not less than 30 days before the date of a meeting irrespective the questions placed on the agenda, if the legislation does not otherwise provide longer term.	Complied	Paragraph 13.10 of the OJSC "Magnit" Charter Article 24 of the Regulations on the OJSC "Magnit" general shareholders' meeting
2.	Present shareholders' ability to study the list of persons which are entitled to participate in the general meeting, starting from the date of notification on holding of the general meeting up to the closing of general meeting in praesentia form, in case if the general meeting is held in absentia form – up to the closing date of acceptance of voting papers.	Complied	Article 22 of the Regulations on the OJSC "Magnit".general shareholders' meeting. Paragraph 2 of Article 4 of the Regulations on the OJSC "Magnit" information policy.
3.	Present shareholders' ability to study the information (materials) that is to be presented for preparation for the general shareholders' meeting by means of electronic communication facilities, Internet in particular	Complied	Paragraph 13.10 of the OJSC "Magnit" Charter
4.	Present shareholder's ability to place a question on the general meeting agenda or call the general meeting without delivering the shareholders' register extract, if the registration of his/her share rights is recorded in the system of shareholders' register, in case if his/her right is registered in the custody account - adequacy of the custody account extract to exercise the above rights	Complied	Paragraph 4 of article 5 and paragraph 2 of article 11 of the Regulations on the OJSC "Magnit" general shareholders' meeting
5.	Presence in the company Charter or internal documents of the order on the obligatory attendance of the general shareholders' meeting by CEO, management members, members of the board of directors, members of the auditing committee and the auditor of the joint stock company	Complied upon the fact	According to paragraph 2 of article 29 of the Regulations on the OJSC "Magnit" general shareholders' meeting, the Company makes all arrangements to provide the attendance of the general shareholders' meeting by the members of the board of directors, sole executive body,

² The information is disclosed according to the "Methodical recommendations on the content and form of information disclosure on compliance with the corporate code of conduct in the annual reports of joint-stock companies", ratified by the FFMS of 30.04.2003 № 03-849/p.

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
			members of the auditing committee and other bodies of the company. They are liable for providing qualified answers to the questions of the meeting participants.
6.	The obligatory attendance by the candidates of the general shareholders meetings with agenda issues on the election of the board members, CEO, management body, members of the auditing committee, and issues on the appointment of the auditor of the joint-stock company	Not complied	-
7.	Presence in the internal documents of the joint-stock company of the registration procedure of the general shareholders' meeting participants	Complied	Article 42 of the Regulations on the OJSC "Magnit" general shareholders' meeting
Board of directors			
8.	Presence in the Charter of the joint-stock company of the right of the board members to annually ratify the business plan of the joint-stock company	Complied	Paragraph 14.2. of the OJSC "Magnit" Charter Article 5 of the Regulations on the OJSC "Magnit" Board of directors
9.	Presence of the risk management structure in the joint-stock company, ratified by the board of directors	Not complied	Paragraphs 6.11 and 6.15 of the Regulations on the Committees of the board of OJSC "Magnit", according to which the analysis of the management system of risks related to the financial and economic activity of the Company and arrangement of recommendations on the improvement of such system refer to the competence of the Audit Committee. Paragraph 3.1. and 6 of article 1, paragraph 2.4. of article 2 of the Regulations on the internal audit over financial and economic activity of OJSC "Magnit".
10.	Presence in the joint-stock company charter of the right of the board to decide on suspension of authority of CEO, appointed by the general shareholders' meeting	Not applicable	Under paragraph 14.2. of the OJSC "Magnit" Charter, the election of the sole executive body of the company refers to the competence of the board of the Company.

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
11.	Presence in the joint-stock company charter of the right of the board to set the requirements for the qualification and the amount of remuneration of CEO, management members, the directors of the main structural departments of the joint-stock company	Complied	<p>Under paragraph 14.2. of the Charter of OJSC "Magnit", the ratification of the agreement with the person exercising rights of the company sole executive body refers to the competence of the OJSC "Magnit" board of directors.</p> <p>According to article 7 of the Regulations on the committees of the OJSC "Magnit" board, elaboration of the eligibility criteria of candidates for the positions of CEO (managing company), directors of the main structural departments of the Company, and work-out of the remuneration procedure to CEO (managing company) and highly qualified employees of the Company, refer to the competence of the HR and Remuneration Committee.</p>
12.	Presence in the joint-stock company charter of the right of the board to ratify the conditions of the agreements with CEO and management members	Complied	According to paragraph 14.2. of the OJSC "Magnit" Charter, ratification of the agreement with the person exercising the right of the sole executive body of the company refers to the competence of the OJSC "Magnit" board of directors.
13.	Presence in the joint-stock company charter or internal documents of the requirement, that the votes of the board members, which are CEO and management members, are not counted in ratifying the agreement conditions with CEO (managing company, manager) and management members	Not complied	-
14.	Presence in the board of the joint-stock company of not less than 3 independent directors eligible for the Code of corporate conduct.	Not complied	<p>According to paragraph 2 of article 33 of the Regulations on the OJSC "Magnit" board of directors, the board must have not less than one independent member.</p> <p>Westman Johan Mattias was voted as an independent director in the board of the Company</p>

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
15.	Absence in the joint-stock company board members who were found guilty of committing economic crimes and crimes against the government, interests of public service and local authorities, or members which were enforced administrative penalty for entrepreneurial or financial crimes, crimes related to dues and fees, securities market.	Complied	The company does not hold information about any members of the OJSC "Magnit" board of directors found guilty of committing economic crimes and crimes against the government, interests of public service and local authorities, or members were enforced administrative penalty for entrepreneurial or financial crimes, crimes related to dues and fees, securities market.
16.	Absence in the joint-stock company board of directors of members who are the member, CEO (manager), management member or the employee of the legal entity which is a competitor to the joint-stock company.	Complied	The company does not hold information about any OJSC "Magnit" board members being the members, CEO (manager), management member or the employee of the legal entity which is a competitor to OJSC "Magnit"
17.	Presence in the joint-stock company Charter of the requirement for the election in the board of directors by cumulative voting	Complied	Paragraph 14.7. of the OJSC "Magnit" Charter
18.	Presence in the internal documents of the joint-stock company of the duty of the board members to avoid any actions that will lead or potentially may lead to the conflict between their interests and interests of the joint-stock company, and in case such a conflict arises - the duty to disclose the information about this conflict to the board of directors	Complied	Article 7 and 32 of the Regulations on the OJSC "Magnit" board of directors. Paragraphs 16.1. - 16.2. of the OJSC "Magnit" Charter. Paragraph 3.10. of article 7 of the Regulations on the committees of the OJSC "Magnit" board of directors.
19.	Presence in the internal documents of the joint-stock company of the duty of the board members to notify in writing the board on the intention to make a transaction with securities of the joint-stock company, being the member of this company or of its subsidiary (dependant) companies', and to disclose the information on the transactions with such securities as well.	Complied	Article 7 of the Regulations on the OJSC "Magnit" board of directors. Article 6 and paragraph 6 of article 10 of the Regulations on OJSC "Magnit" information policy.
20.	Presence in the internal documents of the joint-stock company of the requirement to hold the meetings of the board not less than once in six weeks	Not complied	According to paragraph 1 of article 22 of the Regulations on the OJSC "Magnit" board of directors, board meetings are held upon necessity but not less than once in three months

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
21.	Holding of the joint-stock company board meeting within the year under report periodically but not less once in six weeks	Not complied	During 2006 the OJSC "Magnit" board meetings were held not less than once in a month, except for July and August when board meetings were not held
22.	Presence in the internal documents of the joint-stock company of the board meetings procedure.	Not complied	-
23.	Presence in the internal documents of the joint-stock company of the Regulations on the obligatory approval by the board of directors of the joint-stock company transactions at the amount of 10 and more percent of the assets value of the company excluding transactions entered into on a regular economic activity basis.	Not complied	According to paragraph 14.2. of the OJSC "Magnit" Charter, the approval of transactions (including several interrelated deals) on acquisition, alienation, directly or indirectly, by the company and possibility of alienation of the assets, amounting to 5 or more percent of the balance sheet assets of the company and its subsidiaries ("the Group"), defined on the basis of the last consolidated report of the Group, prepared in accordance with the IFRS, excluding transactions on the offering of the common shares of the company and transactions in the usual economic activity, is not advanced by the Charter to the competence of the general shareholders' meeting but to the competence of the board of directors.
24.	Presence in the internal documents of the joint-stock company of the right of the board of directors to get from the joint-stock company executive bodies and directors of the main structural departments of the information which is essential for them to exercise functions, and the responsibility for failure to submit such information	Complied	Article 6 and 9 of the Regulations on the OJSC "Magnit" board of directors. Article 5 of the Regulations on the OJSC "Magnit" information policy
25.	Presence of the board committee of strategic planning or assignment the functions hereof to the other committee (except for the audit committee and HR and remuneration committee)	Not complied	The possibility of establishing the committee is considered
26.	Presence of the board committee (audit committee) which advises on the joint-stock company auditor to the board, and	Complied	The Audit Committee of the OJSC "Magnit" board is established in the Company.

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
	cooperates with the board and revision committee of the joint-stock company.		The document assigning the functions to the audit committee is the Regulations on the board committees of OJSC "Magnit".
27.	Presence in the audit committee of independent and non-executive directors only	Not complied	According to the article 6 of the Regulations on the board committees of OJSC "Magnit", the audit committee must have an independent director. The members of the Audit Committee of OJSC "Magnit" are: 1) Westman Johan Mattias (independent director); 2) Sergey Galitskiy (executive director); 3) Alexandr Prisyazhnyuk (non-executive director)
28.	Management of the audit committee is executed by the independent director	Complied	According to the article 6 of the Regulations on the board committees of OJSC "Magnit", the independent director only can be in charge of the Audit Committee. The Chairman of the board Audit Committee of OJSC "Magnit" is Westman Johan Mattias, the independent director.
29.	Presence in the internal documents of the joint-stock company of the right of all the audit committee members of access to any documents and information of the joint-stock company, provided that they do not disclose the confidential information.	Complied	Paragraph 2 of article 36 of the Regulations on the OJSC "Magnit" board. Paragraph 10 of article 4 of the Regulations on the board committees of OJSC "Magnit". Paragraph 8 of article 10 of the Regulations on OJSC "Magnit" information policy.
30.	Establishment of the board committee (HR and Remuneration committee), whose function is to set the candidates criteria for the board members and work out the remuneration policy of the joint-stock company.	Complied	HR and Remuneration Committee of the board of OJSC "Magnit" is established in the Company. The document assigning the functions to the HR and Remuneration committee is the Regulations on the board committees of OJSC "Magnit".

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
31.	Management of the HR and Remuneration Committee is executed by the independent director	Not complied	Vladimir Gordeychuk (non-executive director) is the Chairman of the HR and Remuneration Committee of the OJSC "Magnit" board.
32.	Absence of the officials of the joint-stock company in the HR and Remuneration Committee	Complied	Members of the HR and Remuneration Committee are: 1) Vladimir Gordeychuk; 2) Andrey Arutyunyan; 3) Dmitriy Chenikov;
33.	Establishment of the risks committee of the board or assignment of the functions hereof to the other committee (except for the audit committee and the HR and Remuneration committee).	Not complied	The committee establishment is under consideration.
34.	Establishment of the board committee of corporate conflict management or assignment of the functions hereof to the other committee (except for the audit committee and the HR and Remuneration committee).	Not complied	The committee establishment is under consideration
35.	Absence of the officials of the joint-stock company in the committee of the corporate conflict management	Not complied	See clause 34
36.	Management of the corporate conflict management committee is executed by the independent director	Not complied	See clause 34
37.	Presence of the internal documents of the joint-stock company ratified by the board, which provide for procedure of establishment and operation of the board committees.	Complied	The Regulations on the board committees of OJSC "Magnit" is ratified by the board of OJSC "Magnit".
38.	Presence in the charter of the joint-stock company of the procedure of the board quorum setting, which provides the obligatory participation of the independent directors in the board meetings	Not complied	-
Executive bodies			
39.	Presence of the collegial executive body (governing body) of the joint-stock company	Not complied	According to the Charter of OJSC "Magnit", CEO is the executive body of the Company. There is no collegial executive body (governing body) in the Company.

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
40.	Presence in the charter or internal documents of the joint-stock company of the regulations on the obligatory management approval of the transactions with real estate, receipt by the joint-stock company of credit, if the transactions herein do not refer to the major transactions and do not relate to the regular economic activity of the joint-stock company	Not complied	See clause 39
41.	Presence in the internal documents of the joint-stock company of the coordination procedure of operations which are outside the framework of financial and economic activity of the joint-stock company	Complied	The procedure of the board resolutions of the Company within its competence is provided by the internal documents of OJSC "Magnit" – the Charter of the Company, the Regulations on the board of OJSC "Magnit"
42.	Absence in the joint-stock company executive bodies of members who are the member, CEO (manager), management member or the employee of the legal entity which is a competitor to the joint-stock company	Complied	The OJSC "Magnit" executive bodies do not have among its members a person who is a member, CEO (manager), management member or the employee of the legal entity which is a competitor to the joint-stock company
43.	Absence in the joint-stock company executive bodies of members who were found guilty of committing economic crimes and crimes against the government, interests of public service and local authorities, or members which were enforced administrative penalty for entrepreneurial or financial crimes, crimes related to dues and fees, securities market If the functions of the sole executive body are exercised by the management organization or the manager – compliance of CEO and management members of the management organization or the manager with the requirements, set to CEO and management members of the joint-stock company	Complied	The company does not hold information about any members of the OJSC "Magnit" executive bodies found guilty of committing economic crimes and crimes against the government, interests of public service and local authorities, or members were enforced administrative penalty for entrepreneurial or financial crimes, crimes related to dues and fees, securities market
44.	Presence in the charter or internal documents of the joint-stock company of the prohibition for the management organization (the manager) to exercise	Not complied	No management organization (manager)

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
	similar functions in the competing company, and to be involved in any other property relations with the joint-stock company, except for providing services to the management organization (the manager)		
45.	Presence in the internal documents of the joint-stock company of the duty of the executive bodies to avoid any actions that will lead or potentially may lead to the conflict between their interests and interests of the joint-stock company, and in case such a conflict arises - the duty to disclose the information about this conflict to the board of directors	Complied	Paragraphs 16.1. – 16.2. of the Charter of OJSC “Magnit” Article 6 of the Regulations on the sole executive body of OJSC “Magnit”
46.	Presence in the charter or internal documents of the joint-stock company of the selection criteria for the management organization (manager)	Not complied	See clause 44
47.	Executive bodies monthly report on its work to the board	Not complied	According to the article 69 of the Federal Law “On the joint-stock companies”, the executive bodies of the joint-stock company are accountable to the board of directors, therefore the right of the management board members to get the information about the operation and activity of the executive bodies is indefeasible and does not require any special prescription
48.	Fixing in contracts and agreements entered into by the joint-stock company with CEO (management organization, manager) and management members of the responsibility for breach and violation of regulations on confidentiality and private information	Complied	-
The Secretary of the company			
49.	Presence in the joint-stock company of the special official (the secretary of the company), whose duty is to provide the compliance of the bodies and officials of the joint-stock company with the procedural requirements which ensure the exercise of rights and legal interests of the joint-stock company.	Not complied	-

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
50.	Presence in the charter or internal documents of the joint-stock company of the procedure of appointment (election) of the secretary of the company and assignment duties of the secretary of the company.	Not complied	-
51.	Presence in the charter of the joint-stock company of the requirements to the candidates for the secretary position of the company.	Not complied	-
Substantial corporate actions			
52.	Presence in the charter or internal documents of the joint-stock company of the requirement of major transactions approval.	Not complied	-
53.	The obligatory involvement of the independent appraiser for the assessment of the subject of the major transaction.	Not complied	-
54.	Presence in the charter of the joint-stock company of the prohibition on any actions within the acquisitions (mergers) of the major share holdings of the joint-stock company, aimed at the interests protection of the executive bodies (members of such bodies) and members of the board of the joint-stock company, and deteriorating the position of the shareholders as compared to the present (particularly, prohibition on the decision of the board to issue additional shares, securities convertible into shares or securities providing the right of acquisition of shares of the company, before the end of the presumptive date of shares acquisition, even if the right to make such a decision is provided by the Charter).	Since 01.07.2006 the ban on realization of any of such actions by the company management authorities is determined by the article 84.6 of the Federal Law "On joint-stock companies", which makes the inclusion of such regulations in the Charter inexpedient	According to the article 84.6 of the Federal Law "On joint-stock companies" upon receipt by the open company of optional or obligatory offer, the decisions on the following issues are taken only by the general shareholders' meeting of the open company: - increase of the charter capital of the open company through the offering of the additional shares within the limits of number and categories (types) of the announced shares; - the offering by the open company of the securities, convertible into shares, including the options of the open company; - approval of the transaction or several interrelated transactions on acquisition, alienation or possibility of alienation by the opened company directly or indirectly of assets with the value of 10 or more percents of the

№	Clause of the code of corporate conduct	Complied / not complied	Note
			<p>balance sheet value of the opened company, determined on the basis of its accounting report on the last reporting date, if only such transactions are not made in the process of the ordinary economic activity of the opened company or were not made before the open company receives optional or obligatory offer, and if the open company receives the optional or obligatory offer to acquire the publicly circulating securities, prior to the information disclosure of the delivery of the corresponding offer to the open company;</p> <ul style="list-style-type: none"> - approval of the transactions in which the party has interest; - acquisition by the open company of the allocated shares in cases provided by the present Federal Law; - increase of the remuneration to the persons occupying the positions in the management bodies of the open company, determination of conditions of cessation of their authorities, including determination of increase of the compensations paid out to these persons in case of cessation of their authorities
55.	Presence in the charter of the joint-stock company of the requirement of obligatory involvement of the independent appraiser for the assessment of the current market price of the shares and possible changes of their market price in the result of a merger.	Not complied	-
56.	Absence in the charter of the joint-stock company of exemption of the acquirer from the obligation to offer the shareholders to sell the ordinary shares of the company, owned by them, (securities convertible into ordinary shares) within a merger.	Complied	Paragraph 8.7. of the Charter of OJSC "Magnit"

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
57.	Presence in the charter or internal documents of the joint-stock company of the requirement of obligatory involvement of the independent appraiser for the assessment of shares conversion ratio during reorganization.	Not complied	-
Information disclosure			
58.	Presence of the internal document ratified by the board, stipulating the rules and approaches of the joint-stock company to information disclosure (Regulations on information policy).	Complied	The Regulations on the information policy of OJSC "Magnit" is ratified by the resolution of the board of OJSC "Magnit" on 12 April, 2006, minutes of meeting w/o N of 12 April, 2006.
59.	Presence in the internal documents of the joint-stock company of the requirement to disclose the information on the shares offering, on persons who intend to acquire the offered shares, including the major minority shareholding, and on whether the top officials of the joint-stock company will take part in acquisition of the shares offered by the company	Not complied	Information disclosure is carried out in accordance with the requirements of the actual legislation of Russian Federation.
60.	Presence in the internal documents of the joint-stock company of the list of information, documents and materials which should be presented to the shareholders for consideration of the questions submitted to the general shareholders' meeting	Complied	Paragraph 11.13 of the Charter of OJSC "Magnit". Articles 26-27 of the Regulations on the general shareholders' meeting of OJSC "Magnit".
61.	Presence of the website of the joint-stock company and regular disclosure of the information about the joint-stock company on its website	Complied	http://www.magnit-info.ru
62.	Presence in the internal documents of the joint-stock company of the requirement to disclose information about the transactions of the joint-stock company with persons referred by the charter to the top officials of the joint-stock company, and about transactions of joint-stock company with organizations in which 20 or more percents of the charter capital of the joint-stock company directly or indirectly are owned by the top officials of the joint-stock	Not complied	Information disclosure is carried out in accordance with the requirements of the current legislation of Russian Federation

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
	company, or organizations, which can be otherwise considerably influenced by the persons hereof		
63.	Presence in the internal documents of the joint-stock company of the requirement to disclose the information about all the transactions which may affect market value of the shares of the joint-stock company	Not complied	Information disclosure is carried out in accordance with the requirements of the actual legislation of Russian Federation
64.	Presence of the internal document ratified by the board on the use of material information on the activity of the joint-stock company, shares and other securities of the company and transactions with them, which is not public and the disclosure of which can considerably affect the market value of shares and other securities of the joint-stock company	Complied	Article 10 of the Regulations on information policy of OJSC "Magnit"
Control over financial and economic activity			
65.	Presence of procedures of the internal control over the financial and economic activity of the joint-stock company ratified by the board	Complied	Regulations on the internal control over financial and economic activity of OJSC "Magnit" is ratified by the resolution of the board of OJSC "Magnit" on 24 December, 2007, minutes of meeting of 24 December, 2007.
66.	Presence of a special department of the joint-stock company regulating the compliance with the procedures of the internal control (supervision and auditing department)	Complied	Internal control department was established in the Comp. The document assigning the functions to the service – Regulations on the internal control over financial and any economic activity of OJSC "Magnit"
67.	Presence in the internal documents of the joint-stock company of the requirement for the board to determine the structure and members of supervision and auditing department of the joint-stock company	Complied	Paragraph 3 of article 3 of the Regulations on the internal control over financial and economic activity of OJSC "Magnit"

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
68.	Absence in the revision and auditing department of members who were found guilty of committing economic crimes and crimes against the government, interests of public service and local authorities, or members which were enforced administrative penalty for entrepreneurial or financial crimes, crimes related to dues and fees, securities market	Complied	-
69.	Absence in the revision and auditing department of members who are the member of the executive body of the joint-stock company or who are the members, CEO (manager), management member or the employee of the legal entity which is a competitor to the joint-stock company	Complied	-
70.	Presence in the internal documents of the joint-stock company of the date of filing the documents and materials for assessment of the carried-out financial and economic activity with the revision and auditing department, and responsibility of the officials and employees of the joint-stock company for not filing them in time.	Not complied	-
71.	Presence in the internal documents of the joint-stock company of the obligation of the revision and auditing department to inform the audit committee of the detected breaches, and in of absence of the audit committee – to inform the board of the joint-stock company	Complied	Paragraph 3 of article 2 of the Regulations on the internal control over financial and economic activity of OJSC "Magnit"
72.	Presence in the internal documents of the joint-stock company of the requirement of preliminary assessment by the revision and control department of operations not provided by the economic and financial plan of the joint-stock company (irregular operations).	Not complied	-
73.	Presence in the internal documents of the joint-stock company of the procedure of approval of the irregular operation with the board	Not complied	-
74.	Presence of the internal document ratified by the board, which determines the procedure of the revision commission's inspection of the financial and economic	Complied	Regulations on the revision commission of OJSC "Magnit" is ratified by the annual general shareholders' meeting of OJSC

<i>№</i>	<i>Clause of the code of corporate conduct</i>	<i>Complied / not complied</i>	<i>Note</i>
	activity of the joint-stock company		"Magnit" on 8 April, 2006, minutes of meeting w/o N of 12 April, 2006.
75.	The assessment by the audit committee of the auditors' conclusion before its filing with the shareholders on the general shareholders' meeting.	Complied	Paragraph 6.7. of the Regulations on the committees of the board of OJSC "Magnit".
Dividends			
76.	Presence of the internal document ratified by the board, which regulates the board in adoption of recommendations on the amount of dividends (Regulations on dividend policy)	Complied	Regulations on the dividend policy of OJSC "Magnit" is ratified by the resolution of the board of OJSC "Magnit" on 12 April, 2006, minutes of meeting w/o N of 12 April 2006.
77.	Presence in the Regulations on dividend policy of the procedure of determination of the minimum share of net profit of the joint-stock company for dividend payment, and conditions under which the dividends on privileged shares are not paid out or paid out partially, the amount of which is determined by the charter of the joint-stock company.	Complied	Paragraphs 4-5 of article 2 of the Regulations on dividend policy of OJSC "Magnit". There are no privileged shares in the Company.
78.	Release of the information on dividend policy of the joint-stock company and amendments to it in the periodical, provided by the charter of the joint-stock company for release of the announcements about holding of the general shareholders' meeting and placing of the above information on the joint-stock company website.	Complied	The Regulations on dividend policy of OJSC "Magnit" is released on the OJSC "Magnit" website.

17. INFORMATION ON THE AUDITOR AND THE CONSULTANT OF THE COMPANY

Under the resolution of the annual general shareholders' meeting of June 28, 2007 (minutes of 10.07.2007) the auditing firm LLC AF "Faber Lex" was appointed **the auditor** of the Company for the year 2007 in accordance with RAS.

Choosing the auditing firm the following factors were considered: operation period of the firm, the price of services provided, staff and their qualification.

Information on the Company's Auditor which conducted audit of the Company for the year 2007 according to the Russian Accounting standards:

<i>Full name of the audit organization</i>	Limited Liability Company Auditing firm "Faber Lex"
<i>Short name of the audit organization</i>	LLC AF "Faber Lex"
<i>Address</i>	144/2 Krasnikh Partizan str., Krasnodar
<i>Phone number (including city code)</i>	7(861) 220-03-20, 221-41-42, 226-41-41, 226-45-22, 226-38-15, 226-44-54
<i>Fax number (including city code)</i>	7(861) 220-03-20
<i>E-mail</i>	faberlex@mail.ru
<i>License number certifying auditing activity</i>	E 003080
<i>Date of issue</i>	27.12.2002
<i>Validation period</i>	until 27.12.2012
<i>Issuing authority</i>	Ministry of Finance of Russian Federation

Information on the Company's Auditor which conducted the audit of the Company reporting over the year 2007 according to IFRS:

<i>Full name of the audit organization</i>	Close Joint-Stock Company «Deloitte and Touche CIS»
<i>Short name of the audit organization</i>	CJSC «Deloitte and Touche CIS»
<i>Address</i>	building 2, 4/7 Vozdvizhenka str., Moscow Russia
<i>Phone number (including city code)</i>	+ 7 (495) 787-06-00
<i>Fax number (including city code)</i>	+ 7 (495) 787-06-01

<i>Website</i>	www.deloitte.ru
<i>License number certifying auditing activity</i>	E 002417
<i>Date of issue</i>	06.11.2002
<i>Validation period</i>	until 06.11.2012
<i>Issuing authority</i>	Ministry of Finance of Russian Federation

Information on financial consultant of the Company on the securities market, which signed the securities prospectus registered on 06.03.2006:

<i>Full name of organization</i>	Open Joint-Stock Company «Federal Fund Corporation»
<i>Short name of organization</i>	OJSC «FFC»
<i>Address</i>	25 Ostozhenka str., Moscow, Russia
<i>Phone number (including city code)</i>	+7 (495) 737-86-30
<i>Fax number (including city code)</i>	+7 (495) 737-86-32
<i>Website of the financial consultant to disclose the information about the Issuer under the regulations of the Provisions on information disclosure by the issuer of securities, ratified by FFMS</i>	www.fscorp.ru
<i>License for exercising the activity on securities market</i>	License of the professional participant of the securities market for brokerage activity № 077-06174-100000 License of the professional participant of the securities market for dealer activity № 077-06178-010000
<i>Date of issue</i>	August 29, 2003
<i>Validation period</i>	Non-expiry (for an indefinite term)
<i>Issuing authority</i>	Federal Financial Markets Service

Services provided by the financial consultant:

- Preparation of the draft of the prospectus according to the information provided by the Company;
- Signing of the prospectus approved by the Company, after adequate verification based on all the documents provided by the Company, according to the written inquiry of the Financial advisor and receipt of the proper written certifications of the Company on reliability,

adequacy and completeness of the information contained in the above indicated document and to be included in the prospectus, except the part, verified by the auditor or appraiser;

- Expertise of the documents filed to the registration authority for prospectus registration;

- Signing of documentation, which might be required from the Company for organization of securities floatation with the trade institutor;

- Advice services on securities issue, including information disclosure on the securities market under the regulations of legislation.

ANNEX TO 2007 ANNUAL REPORT OF OJSC "MAGNIT"

ANNEX № 1. Open Joint-Stock Company "Magnit" and its subsidiaries. Independent Auditors' Report. Year ended December 31, 2007.

ANNEX № 2. RAS Accounting report of CJSC "Tander" for the year 2007

CJSC "Tander". Consolidated balance sheet of December 31, 2007

CJSC "Tander". Consolidated profit and loss statement for the year 2007

CJSC "Tander". Consolidated statement of changes in equity for the year 2007

CJSC "Tander". Consolidated cash flow statement

CJSC "Tander". Appendix to the consolidated balance sheet for the year 2007

ANNEX № 3. RAS Accounting report of OJSC "Magnit" for the year 2007

OJSC "Magnit". Consolidated balance sheet of December 31, 2007

OJSC "Magnit". Consolidated profit and loss statement for the year 2007

OJSC "Magnit". Consolidated statement of changes in equity for the year 2007

OJSC "Magnit". Consolidated cash flow statement

OJSC "Magnit". Appendix to the consolidated balance sheet for the year 2007