

# RECIPE BOOK

annual report



# **RECIPE BOOK**

annual report
2007



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# ROSINTER IN BRIEF

ROSINTER RESTAURANTS HOLDING is the leading casual dining operator in Russia and the CIS. Rosinter's first restaurant was opened in Moscow in 1990 and, as of December 31, 2007, the Company had 232 outlets, including 63 franchised restaurants. In 2007, it served approximately 13.6 million customers in 25 cities in Russia, CIS and Central Europe (and the Baltics).

Rosinter offers Italian, Japanese, American and Russian cuisine under its proprietary brands IL Patio, Planet Sushi and 1-2-3 Café, and its licensed brands T.G.I. Friday's and Sibirskaya Corona. On December 11, 2007, Rosinter signed a joint venture agreement with Costa LTD, a subsidiary of Whitbread PLC (LSE ticker WTB.L), to develop a chain of Costa Coffee shops in Russia. The partners also intend to open Costa stores in Ukraine and Belarus at a later date.

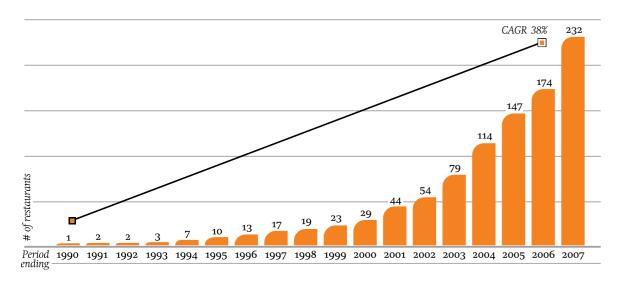
Rosinter Restaurants Holding is listed on RTS under the stock ticker ROST. The Company's consolidated revenues for the year ended December 31, 2007, were US\$268.2 million, a 22.7% increase over 2006. Its Adjusted EBITDA over the same period was US\$38.8 million, a 34.7% increase over 2006.

The Company operates in high-growth markets and is focused on meeting increasing demand from the burgeoning middle class in Russia, the CIS and Central Europe (and the Baltics) drawing on its scalable business model and its well-established regional platform.

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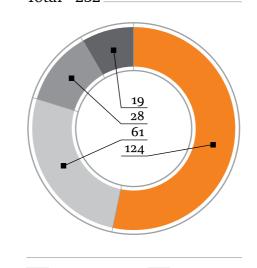
# OPERATIONAL AND FINANCIAL HIGHLIGHTS

#### Number of Restaurants

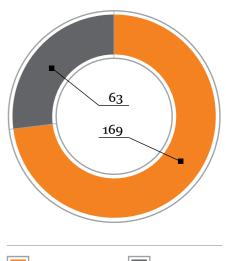


### LOCATIONS BY REGION

Total-232







Moscow

Russian regions

CIS

Central Europe and the Baltics

Corporate Franchised

### CONSOLIDATED FINANCIAL INFORMATION

Year ended December 31, 2007 – 2006

Thousands of US\$\_\_\_

	2007	2006
Revenue	268,216	218,626
GROSS PROFIT	98,208	80,725
Profit from operating activities	22,718	12,574
Profit/(loss) before income tax	10,198	1,127
NET PROFIT FOR THE YEAR	5,966	779
Earnings per share attributable to equity of the parent entity, $\ensuremath{US\$}$	0.53	0.08
EBITDA	31,915	20,727
Adjusted EBITDA (revised)	38,800	28,178

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# BRAND PORTFOLIO

Rosinter's brand portfolio includes Italian, Japanese, American and Russian cuisine under proprietary brands IL Patio, Planet Sushi and 1-2-3 Café, the licensed brands T.G.I. Friday's, Sibirskaya Corona and Costa Coffee through a joint venture. At the end of 2007, our restaurants were present in 25 cities in eight countries in Russia, the CIS and Central Europe (and the Baltics).



# © PATIO / Italian cuisine

Our proprietary IL Patio brand features an authentic Italian menu composed mainly of pizza, pastas and grilled meats, fish and vegetables, with an emphasis on value for money. The atmosphere at each IL Patio restaurant is created by a broad spectrum of intense colours, exposed brick walls with baroque design elements, bright lighting and the aromas of flour and olive oil. Service at IL Patio is provided by waiters trained to be communicative and extroverted. According to the Brand Health/In Depth survey, IL Patio was the second-best known casual dining brand in Moscow, with 89% brand awareness.

As of December 31, 2007, we were operating 84 IL Patio outlets in 23 cities in 7 countries, including 29 franchises.



# PLANET SUSHI / Japanese cuisine

Our proprietary Planet Sushi brand features a menu of sushi, sashimi and traditional Japanese dishes. At Planet Sushi, a brown and beige minimalist decor, exposed limestone and soft lighting contribute to a soothing, comfortable atmosphere. Service at Planet Sushi restaurants is generally provided by kimono-clad waitresses, trained to be reserved and respectful. In 2006, we restyled Planet Sushi's logo, menu, service and interior design standards to be more sleek and modern. According to the Brand Health/In Depth survey, Planet Sushi was the third best known casual dining brand in Moscow, with 78% brand awareness.

As of December 31, 2007, we were operating 74 Planet Sushi outlets in 20 cities in 7 countries, including 24 franchises.

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Our T.G.I. Friday's restaurants are in keeping with the values and style of the global T.G.I. Friday's brand. Filling appetizers, steaks and an extensive menu of high-quality, original cocktails figure prominently on its menu. Serving portions are large. Its dark wood walls lined with sport and pop/rock memorabilia and its 70s-style bar area and lighting fixtures create a friendly, leisure-time atmosphere. Waiters and waitresses are dressed casually and trained to be particularly outgoing, in keeping with the restaurant's casual American ethos. Rosinter has the exclusive franchise rights for T.G.I. Friday's in Russia, Belarus, Kazakhstan, Ukraine, the Baltic States and Central Europe, including Austria, Poland, the Czech Republic, Hungary, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro.

As of December 31, 2007, we were operating 20 T.G.I. Friday's outlets in 10 cities in 7 countries.



# SIBIRSKAYA CORONA /Beer restaurant

Our Sibirskaya Corona (Siberian Crown) restaurants evoke the well-known Russian beer brand sharing the same name. Centred on the beer-drinking experience, our restaurants feature mainly salads and grilled items with an emphasis on value for money. The atmosphere replicates a pub and features traditional elements of Russian decor. Wood is the main material and green, brown and white are the dominant colours, in line with the brand colours of Sibirskaya Corona beer. A 'mangal', a grill station where items are cooked over a fire, is a focal point of the restaurants. Service is provided by waitresses that welcome guests as their neighbours. Rosinter has exclusive license rights for Sibirskaya Corona restaurants in Russian regional markets.

As of December 31, 2007, we were operating 14 Sibirskaya Corona outlets in 8 cities in Russia, including 5 franchises.

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# 1-2-3 CAFÉ/Russian cuisine

Our proprietary 1-2-3 Café concept serves traditional Russian food such as soups, pelmeni, blini (pancakes) and other items that are staples of traditional Russian home cooking. The brand name refers to this culture, as a traditional meal starts with a first course of soup, continues with a second course of salad and finishes with the main course, followed by traditional stewed fruit. At 1-2-3 Café, these traditions are combined with a modern approach. As a result, traditional food is served in a contemporary, airy environment. Service is friendly and draws on Russian traditions. Red is the signature colour of this lively eating-out experience. In late 2007, we opened our fourth 1-2-3 Café unit at our flagship location on Pushkin Square, Moscow.

As of December 31, 2007, we were operating four outlets under the 1-2-3 Cafe brand in Moscow.



Costa Coffee, the worldwide coffee chain, introduces the famous coffee with a unique Italian aroma and taste. The stores are the most comfortable, stylish and welcoming places, featuring soft leather sofas and fresh contemporary decor. Costa Coffee serves high-quality coffee made to order, along with its wide range of hot paninis, fresh sandwiches, pastries and irresistible muffins. All the food is made to Costa's unique secret recipes and the exclusive coffee beans are delivered from Costa's own roaster in Lambeth, London. All the baristas have been trained extensively to produce drinks to Costa's high standards, combining the 15 elements that make the perfect Costa coffee.

The first Costa flagship store was opened on Pushkin Square, Moscow in March 2008.









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ROSTISLAV ORDOVSKY-TANAEVSKY BLANCO Chairman of the Board of Directors

LORI DAYTNER | President and CEO

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# LETTER TO SHAREHOLDERS

Dear Shareholders,

This is our first annual report since we listed our shares on the Russian Stock Market. While we are proud of many of our achievements since we opened our first restaurant in Moscow in 1990, we are particularly delighted to be the first restaurant company in Russia and the CIS to have ventured into the public equity market.



Our unrelenting focus, our trademark entrepreneurial knack and our proven ability to attract and retain a multicultural management team have been the key factors in our emergence as the leading casual dining restaurant chain in Russia, the CIS and Central Europe (and the Baltics).

Our brands deliver, day in and day out, some of the most popular cuisines in our markets. Our customers have the choice of Italian, Japanese, American and Russian cuisines, as well as coffee shops and beer restaurants. Our commitment to service and quality is intended not only to ensure a pleasurable meal but, more importantly, to build a loyal guest base. It has always been clear to everyone at Rosinter

Restaurants that nothing enhances shareholder value more than satisfied guests.

By any measure, 2007 was a year of transformation. With great enthusiasm and commitment from our team, we successfully completed the initial public offering, delivered 58 restaurant net openings with year-on-year growth of 115%, as compared with 27 net openings in 2006, and produced very good financial results. We also made excellent progress on many fronts, enhancing our competitive advantage and helping us grow faster and more profitably in markets with almost unlimited growth opportunities for our sector in general and for our brands in particular.

As our customers' demands expand, we aim to deliver new and exciting options through our existing brands, and through new brand offerings. We operate with a guest-centred obsession, and strive to keep our brands at the forefront of our (current and potential) customers' minds. Our menus are refreshed four times a year and are supplemented by promotions that offer both value and innovation. Having achieved critical mass in almost all our brands, we now use mass advertising to drive home our message, and we also rely on immensely successful loyalty programmes to reward our growing guest base.

### 4.1 DEVELOPMENT HIGHLIGHTS

The growth of the middle class in Russia, the CIS and Central Europe (and the Baltics), together with the increase in spending per capita, has created the ideal win-win environment for our development model. We are passion-ately committed to our vision of leadership which sees Rosinter becoming the first restaurant company with 1000 restaurants in our Markets.

On our way to this goal, we maintained our market-leading position in casual dining in Russia and the CIS in 2007. At the end of the year we were operating a network of 232 restaurants, including 63 franchises, in eight countries and 25 cities, adding 2 new cities and a new market in Estonia. Our passion for development goes well beyond increasing our numbers: we are still as enthusiastic, thrilled and committed to the success of each new opening as if it were our first restaurant.

In 2007, we made important progress in the three core components of our development strategy:

#### **REGIONS & FRANCHISING**

Franchising is a strategic component of our development activity. To achieve our target of increasing the share of our franchise business in our network, we centralized all our existing franchise recruitment and support resources at corporate level under a dedicated and strong leadership. This will boost our profitability and allow us to speed the rollout of our brands in our markets.

In 2007, we took on 6 new franchise partners in the Russian regions, with openings expected in 2008. This marked the first expansion of our franchising activity beyond the Moscow region, our traditional franchising area.

We strongly believe that this approach, combined with our long-standing experience both as franchisors in Russia and as franchisees of the successful international casual dining brand T.G.I. Friday's, will allow us to respond adequately to the growing expectations of our potential franchisees. In turn, that will result in the successful expansion of the Rosinter Franchise Family across our wide geographical area.

This expansion of the franchise network and our own corporate development will be supported in each region by the resources of our Hub Cities. Each hub is given substantial autonomy in handling day-to-day operations, while the centre keeps control over strategic decisions. Hubs will be used to implement our goal of corporate development in cities of one million plus, and to support the development of our high-quality franchise partners in smaller cities. By the end of 2008, we will have fully operational hubs in nine cities.

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#### **TRANSPORTATION FACILITIES & NEW FORMATS**

HIGH-TRAFFIC LOCATIONS SUCH AS AIRPORTS, RAILWAY STATIONS AND OTHER TRANSPORTATION FACILITIES OFFER US IMPORTANT GROWTH OPPORTUNITIES AND A WAY
TO INCREASE EXPOSURE FOR AND TO OUR BRANDS. By the end of 2007,
we were operating 6 branded restaurants and 3 coffee shops in three
airports: Sheremetevo-2 in Moscow, Pulkovo in St.Petersburg and
Riga International Airport in Latvia. In Pulkovo airport, we have already our first Planet Sushi Express, a special format of our Japanese
brand specially designed for high-traffic locations, and we are working on similar approaches for our other brands.

#### **NEW BRAND OFFERING**

a prime site, Pushkin Square in Moscow.

IN DECEMBER 2007, WE SIGNED A 50-50 JOINT VENTURE AGREEMENT WITH WHITBREAD PLC TO DEVELOP THE COSTA COFFEE CHAIN IN RUSSIA, which includes the re-branding of our 11 existing coffee shops that had been operating under our proprietary brand Moka Loka. Our partnership will combine a strong international brand and the experience and resources of both partners – the ideal combination of global and local expertise and knowledge – to achieve fast and successful development of the Costa brand in Russia. The first of many Costa Coffee shops opened within 4 months of signing the deal on

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## 4.2 EFFICIENCY HIGHLIGHTS

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In 2007, we made progress in several initiatives focused on increasing our operational efficiency with a combined effort by our teams in R&D, marketing, operations, IT and training. Our key areas of focus were food cost, personnel cost and rent.

Food cost: We rationalized our Approved Products List (APL), reducing our portfolio of suppliers and concentrating on quality standards. At the same time, we consolidated our purchases for our Moscow and regional operations, creating significantly more leverage for our everincreasing purchasing power.

Cost of labour: We have continued to implement best practice from our European Operation, which is in a more competitive labour environment. For example, in our Moscow Business Unit our 2007 workforce optimization reduced 624 shifts, amounting to 11.5% of the total number of shifts.

Rent cost: Developing Combo Units, in which two or more branded restaurants are in one location and with the same back-of-the-house services, has become a key strategy in achieving inter-brand synergies and controlling development and maintenance costs. Combo Units reduce the initial investment, rent and cost of labour, while maintaining separate brand identities. We opened 7 Combo Units in 2007 and in the long term we foresee increasing the share of Combo Units to 30%.

Our efficiency initiatives are supported by advanced IT solutions. In 2008, we launched an Enterprise Resource Planning (ERP) system, following its detailed implementation and testing in 2007. We have also developed and tested a new model for managing our restaurants, based on the CrunchTime software solution, that provides leading global best practice for restaurant management.

IN PURSUING EFFICIENCY, OUR GOAL IS TO EMPLOY INTERNATIONAL BEST PRACTICE IN RESTAURANT MANAGEMENT. In 2007, we partnered with SRE, a top international consultant in the restaurant business, to prepare a comprehensive evaluation of our core brands, from restaurant layout and design to staff scheduling, to ensure that we utilize all our potential synergies in cost of goods sold, cost of labour and investment in new restaurants.

# 4.3 TEAM HIGHLIGHTS

GIVEN THE CURRENT LABOR SCARCITY IN OUR MARKETS, OUR ABILITY TO ATTRACT TALENTED TEAM PLAYERS HAS BECOME EVEN MORE CENTRAL TO OUR RECIPE FOR SUCCESS. We offer our team of over 7,700 members an open and en-

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trepreneurial corporate culture that encourages professional development.

Thanks to our rapid geographical development, we look forward to creating even more attractive and rewarding career opportunities for our best-qualified team members. The success of our message is evident in the fact that Rosinter restaurants decreased its staff turnover to approximately 87% in 2007 from 112% in 2006, which compares very favourably with our domestic and international peers.

Our efforts to promote personal and professional excellence in 2007 included professional training for over 4,500 employees and several initiatives focused on increasing our retention rates at the restaurant level. We also introduced a Share Appreciation Rights Programme (SARP) on January 1, 2008, for top managers and Managing Partnership programme (in the experimental phase) for restaurant managers, to align their interests more closely with those of our shareholders.

## 4.4 FINANCIALS HIGHLIGHTS

In 2007, we delivered good financial results, and took two strategic decisions that had a positive impact on achieving our goals of increasing our base of loyal guests and preparing our regional platform for the profitable and fast rollout of our core brands. We substantially increased our marketing investment in the Russian regions and CIS, and in the fourth quarter we decided to absorb food cost inflation,

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delaying our menu price adjustments until end year. Such delay had the double purpose of strengthening our mid-priced positioning in the mind of our guests and allowing us to set up a much more flexible process for frequent price and menu changes.

The appropriateness of such strategies are supported by our strong SSSG (L-f-L) growth of 30.7% in US\$ terms in 1Q 2008, with a 12.9% increase in the number of transactions.

#### In 2007:

- Revenue increased by 22.7% to US\$268.2 million in 2007 from US\$218.6 million in 2006;
- Profit from operating activities increased by 80.7% to US\$22.7 million from US\$12.6 million, with margin from operating activities improving to 8.5% in 2007 from 5.8% in 2006;
- Adjusted EBITDA increased 37.7% to US\$38.8 million in 2007 from US\$28.2 million in 2006 with Adjusted EBITDA margin growing to 14.5% in 2007 from 12.9% in 2006;
- Net profit increased to US\$6.0 million in 2007 from US\$0.8 million in 2006, with net profit margin reaching 2.2% in 2007 versus 0.4% in 2006.

## 4.5 STRATEGY UPDATE

In 2007, we set the stage for increased speed of development and geographical coverage. At the end of 2007, we opened restaurants in Rostov-on-Don to initiate our operations in South Russia. In 2008, we are entering the highly promising Polish market and expanding our operations in Kazakhstan in two additional cities, Astana and Atyrau. To complement these new corporate markets, we anticipate that many new restaurants will be opened by our franchise partners in smaller cities in which we currently have no presence.

Our KEY STRATEGIC FOCUS IN 2008 AND BEYOND IS TO BECOME A STRONG PLAYER IN THE RUSSIAN CUISINE AND BEER RESTAURANT SEGMENTS. We plan to promote our emerging Russian Cuisine brand 1-2-3 Café and our Beer Restaurants chain – currently under the licensed brand Sibirskya Korona (Siberian Crown) – to bring their development to the level of our other core brands. 1-2-3 Café has completed its initial test phase and is ready for a wider rollout.

Finally, we would like to briefly address recurring questions about the macro state of our markets, and in particular political change in Russia. Once again we would like to remind you that we have prospered thanks to our faith in the value that we are constantly offering conOperational and Financial Highlights <sup>/</sup>6

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sumers in the markets we serve. We have certainly seen it all in these last 18 years, but we have never lost sight of the fact that understanding and anticipating the eating-out habits of our target customers is a far more gratifying skill than commenting on or meddling in politics. Suffice it to say that we are living in paradise... if compared with yesterday, and see no reason whatsoever why this won't adequately and sufficiently define our long-term future.

We would like to thank you, our shareholders, for placing your trust in our ability to continue our tireless efforts towards building a greater company. We look forward both to hard work and to continuing success, as from these will come profitable leadership in our markets and increased value for our Company.

Приятного аппетита!\*

BLANCO

Chairman of the Board

ROSTISLAV ORDOVSKY-TANAEVSKY

President and CEO

\* Bon Appetit!

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GIULIO D'ERME | Head of Sales and Marketing

# VIVID MARKETING FLAVOURS

Ingredients:

A pitcher of homey atmosphere Three cups of sticky concepts Plenty of ideas And finely sliced ginger service

Our famous recipe for vivid marketing flavours offers the perfect combination for creating pleasure and anticipating expectations, and always hits the right note in our target audience. It captures the unique atmosphere of our brands and our high level of service, while also providing special offers, loyalty programmes and a range of formats to ensure that there is never a dull moment. Our marketing department is constantly analyzing the preferences, tastes and expectations of our guests in order to serve them better. This lets us individualize our strategy with the right mix of flare so that every customer wants to come back for more.





EMERALD MOON ROLLS

**VADIM FADEEV**Brand Chef of Planet Sushi

Lay a sheet of Nori seaweed on a bamboo mat and cover it with sushi rice. Flip the Nori, rice side down, into wasabiko roe and press lightly to evenly coat the rice. Add Philadelphia cream cheese, sliced eel and tamago yaki omelet along the center of the Nori. Using the mat, roll everything up and gently give it a square shape. Slice into eight even pieces and serve with ginger and wasabi.

# THE WAY WE RUN OUR BUSINESS

## 5.1 BRAND BUILDING

BRAND EXPERIENCE: ALWAYS FRESH AND RELEVANT

The MAIN FOCUS IN MARKETING IS TO KEEP THE BRAND EXPERIENCE OF ALL OUR CONCEPTS ALWAYS FRESH AND RELEVANT, in order to respond to the constantly evolving tastes of our customers. Our Brand Managers play a vital part in understanding and interpreting trends in customer preferences, while the R&D team, in our newly designed Kitchen Studio, is responsible for delivering innovative, appealing and cost-effective menu items and promotions to our customers.

#### STRONG BRANDS, COMMON PROCESSES

What do delivering Italian, Japanese, American and Russian dining experiences have in common? A great deal, if they are offered by one of Rosinter's branded restaurants. Whether our guests are dining on borsht at 1-2-3 Café or enjoying maki rolls at Planet Sushi, our restaurants use a single set of processes to deliver uniformly high quality and service as efficiently as possible. At Rosinter, we understand that the key to developing and sustaining strong brands is to combine quality and value in a unique atmosphere. So while each brand looks and feels

unique to the customer, the ultimate dining experience is based on the same principles: tasty, high-quality food delivered quickly by friendly staff in an attractive setting and at the right price. Because we use a single set of processes at all our restaurants, our guests can walk into any Rosinter restaurant in any city and be sure of being satisfied.

We also apply a consistent approach to restaurant team training, food safety standards, branding design and restaurant construction standards. Strong brand standards and processes are vital to support our development, making our business scalable, replicable and predictable. These standards also enable us to accelerate the development of franchise operations across our wide geographic range while maintaining the integrity of our brands.

#### INNOVATION

Innovation is the key to retaining our competitive advantage and our Leading Position in a rapidly evolving Market. That is why, after scrupulous consumer research, our R&D and Marketing team is constantly developing new dishes for both our core and promotional menus. However, new menu creation and roll-out is only part of our innovation process, which ranges from the engineering of new and more efficient kitchen layouts to new innovative front-of-the-house solutions which contribute to the overall restaurant ambiance and customer experience. Moreover, we encourage innovation, so that expertise developed in one area of the business can be quickly applied to other brands.

#### TARGETED BRAND SUPPORT AND COMMUNICATION

ENHANCING THE VISIBILITY OF OUR BRANDS AND REINFORCING OUR BROADER BRANDING MESSAGES OF QUALITY AND SERVICE ARE ALSO ESSENTIAL FACTORS IN STRENGTHENING OUR EXISTING MARKET POSITIONS AND ENTERING NEW GEOGRAPHIC MARKETS.

In 2007, we used television advertising for IL Patio in Russia, and new

and striking billboard campaigns for IL Patio, Planet Sushi and our other core brands in local markets. Given the continued rise in costs for both television and billboard advertising, we have stepped up our communication programme in targeted and innovative media, making extensive use of the potential of direct marketing and internet campaigns.

#### A COMMITMENT TO SUSTAINED CUSTOMER SATISFACTION

THE ULTIMATE GOAL OF ROSINTER IS TO KEEP OUR CUSTOMERS SATISFIED AND SO ENCOURAGE THEM TO RETURN; we can achieve this only through devoted service and a thorough understanding of our customers' requirements. That is why we constantly gather and analyze feedback from customers and information about their requirements and dining habits. In this process our loyalty programmes – MALINA<sup>TM</sup> (a joint programme that we helped to create) and our proprietary Honoured Guest programme – play a vital part in giving us access to a rich source of data

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for Moscow and the Russian regions. This high-quality information makes a more focused direct marketing effort possible according to geographic location and customer category. Malina cardholders accounted for 43% of the revenue of our Moscow operations. Moreover, customer satisfaction is monitored by way of several programmes, and the information generated gives us a way of constantly monitoring customer satisfaction, reacting quickly whenever we see a change in the marketplace and gauging the effectiveness of our marketing and promotional campaigns.

#### **NEW DIRECTIONS**

In 2008, we intend to continue fine-tuning and refreshing our brands by reviewing all aspects of customer experience, from taking a fresh look at all our dishes to improving the appearance of our restaurants and the dining ambiance. We also intend to extend the planned range of our marketing campaigns, in order to make our promotional menus more accessible. We plan to introduce more flexible timing for new menu items, which will enable us to adapt more quickly to local conditions and to react to changes in the marketplace. Our new pricing policy and a more flexible process for menu changes will enable us to maximize average customer expenditure and to build upon the gains made in 2007 in this area.

By constantly working to perfect our brand images and to streamline our processes even further, we aim to strengthen the reputation of our brands for quality. Our commitment to quality and brand visibility will help us meet expanding customer demand in our markets for exciting and high-quality casual dining.

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MARAL CHARYEVA | Vice President, Director of the Moscow Business Unit

# Our House Speciality

Ingredients:

A bushel of fresh staff
A sprinkling of incentives
A teeming pot of teamwork
All topped with a motivational sauce

The key to getting our house speciality right is a well-balanced combination of ingredients. Rosinter employees, from our cooks to our CEO, are all part of the team, and we are committed to creating a positive environment where everyone thrives together. This means we offer comfortable working conditions, performance-based compensation, professional development and opportunities for rapid advancement. In our business, everyone works together to make sure that our guests get the best food and service. And with our proven recipe, the whole team embodies Rosinter's vision of serving all our guests straight from our heart to their plate!







INSALATA DEI COLI

Andrea Maestrelli Brand Chef of IL Patio

Lightly fry and then grill five disks of eggplant. Grill a red pepper too and then slice it into small pieces. Place the eggplant and pepper together with cubed feta and stewed onion on a base of romaine lettuce. Add oregano and dress with our house Italian dressing.

## 5.2 OUR PEOPLE

At Rosinter, where our business is to serve, we know that a professional, motivated and dynamic workforce is crucial to our success. Satisfied employees confirm our Company's image as an employer of choice. We strive to provide our employees with a positive work environment that allows them to reach their full potential. To achieve this, we offer tangible advantages such as competitive salaries, a range of benefits and opportunities for advancement, as well as intangible benefits such as the chance to be a valued member of a great team. Our ambitious expansion plans mean that our most talented employees will have many opportunities to grow with the Company. This helps make our strong team what it is today, and is a key reason for our employees to correlate professional advancement with the Growth of shareholder value.



#### CAREER PATH

The diversity of our current management team bears witness to Rosinter's emphasis on promoting from within. Any employee with ambition and ability can rise through our ranks. Key members of our team, including the CEO, the Director of the Regional Business Unit, the head of our Regional Development Team and the CEO of our Costa joint venture have worked their way up through the Company. Our policy of rewarding success has also helped to attract other key members, who bring a wealth of knowledge from their backgrounds in leading Russian and international companies.

The goal of our HR policy is to attract, motivate, reward and retain the best employees – from waiters to senior executives – in the restaurant industry. Employees at Rosinter understand that we reward ambition and talent, and this policy is a key factor in Maintaining Rosinter's competitive advantage.

#### REMUNERATION AND MOTIVATION

Rosinter values its employees and offers competitive benefit packages and remuneration indexed to reflect the market average for each position. Our employees are fully protected in accordance with legal requirements. Rosinter goes above and beyond these measures to create a positive working environment. Some of the benefits offered by the Company in 2007 include insurance for restaurant directors, white-collar workers and key specialists, life insurance for senior management, free trips to camps for employees' children and discount cards for managers.

Everyone at Rosinter, from waiters to top management, is regularly evaluated, and the best performers are rewarded with incentives. Each quarter restaurant employees are paid a bonus on the basis of their achievements. To measure the performance of both restaurant managers and directors, the Company uses Key Performance Indicators (KPIs) and other yardsticks of customer satisfaction and business unit financial performance. Employees who perform well are carefully nurtured, and will be offered future prospects and opportunities to fill management vacancies, generated mainly by openings in new restaurants.

Our senior management also benefit from a bonus programme based on KPIs. On January 1, 2008, we introduced a SARP for top managers in order to align their interests more closely with those of our shareholders. At the beginning of 2008, we also launched the beta version of Managing Partnership, a programme that gives restaurant managers the opportunity to influence the development of their restaurants and to share their profits. With this programme we intend to go one step AHEAD OF THE MARKET AND TO CONTINUE DRAWING ON OUR ENTREPRENEURIAL RESOURCES AT ALL LEVELS IN OUR COMPANY.

#### **TRAINING**

We see staff training as, first and foremost, a cornerstone in creating a dynamic brand experience. By filling our ranks with great people enthusiastic about their jobs, we create a dining experience that has guests coming back for more. At restaurant level, training ensures a uniform high level of service at all our establishments. For our manRosinter in Brief /5
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agers, training gives them exposure to international best practice and new, forceful ideas on how to grow our brands.

New employees participate in staff training programmes ranging in length from 30 days for general restaurant staff to 90 days for restaurant managers. Restaurant staff training includes an introduction to the Company's values and goals and learning the seven steps to the T.G.I. Friday's Legendary Customer Service, techniques on maximizing sales and the fundamental elements of the Hazard Analysis Critical Control Point (HACCP).

New restaurant managers must complete a three-part training programme that includes Shift Leadership, Managing Staff and Corporate Responsibility. Managers are paired with training directors of proven ability and given comprehensive operating manuals designed to ensure uniform operations, impeccable service, high-quality products consistently prepared and served and proper accounting for restaurant operations.

Departmental directors, restaurant directors and area managers also have access to on-the-job training. In 2007, 110 director-level staff attended seminars on the Technology of Managing, Non-Monetary Motivation and Emotional Leadership, as well as a programme to develop professional skills. In TOTAL, 4,501 EMPLOYEES RECEIVED TRAINING IN 2007.









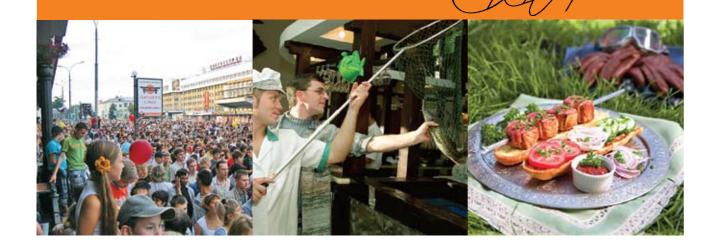
**OLEG PANICHEV** | Vice President, Director of the Regional Business Unit

# SIBERIAN WILD DUCK

Ingredients:

A generous portion of new regions
Three tablespoons of local autonomy
Five cloves of corporate standards
Glazed with our ever-expanding network

When we're serving up our recipe for regional success, we know that there's no single way to do it. After all, we have restaurants spanning 25 cities and 8 countries. That's why our recipe includes a healthy dose of local management flavor, and we encourage our regional hubs to take control of day-to-day operations for issues ranging from hiring to marketing. We understand that the way to get the ideal result is to put the decisions in the hands of experts who know their market best. What works for Budapest might not be right for Barnaul. And while the central office ensures that our high corporate standards are universally applied, our regional management recipe guarantees that local ideas will be served quick and fresh!





ROAST DUCK WITH APPLE

**NIKOLAI IVANOV** Brand Chef of 1-2-3 Café

Marinate the duck in a blend of white wine, honey, garlic and broil for an hour and a half. Meanwhile, peel, slice and fry an apple and then top it with a sauce of butter, cognac and honey. Place half the duck on top of the apple slices and garnish with cherry jam and mint leaves. The result is worth the wait!

### 5.3 CORPORATE DEVELOPMENT

The more our markets evolve, the more we benefit from our entrepreneurial spirit. When Rostislav Ordovsky-Tanaevsky Blanco, the founder of Rosinter, opened his first restaurant in Moscow 18 years ago, he was a step ahead of the market in anticipating customer desires. Since then, both Rosinter and the markets it serves have changed beyond recognition. One element, however, remains constant: we continue to anticipate the future engines of growth and to pioneer innovative techniques are only only as a president of the first restaurant chair in President.

NIQUES IN OUR MARKETS. We were the first restaurant chain in Russia to go into the regions, the first to implement franchising as an effective model for rapid expansion, the first to implement a loyalty programme and the first to complete an IPO. Today, we are consolidating hubs to ensure that we can continue our rapid growth in several markets simultaneously. Through it all, we continue to be the market leader in casual dining in Russia.

#### ROSINTER YESTERDAY AND TODAY

After opening its first restaurants in Moscow, Rosinter expanded to Belarus in 1994 and to Omsk in the Siberian market in 1996. The following year we became the franchise partner of T.G.I. Friday's in Russia, Belarus and Ukraine, and later gained exclusive rights for the use of the brand in 19 Central European countries and the CIS. Rosinter weathered the 1998 Russian economic crisis and in 2001 we went into the Central European market. In 2003, we began to

franchise our own casual dining brands, beginning with Patio Pizza, the forerunner of our market-leading IL Patio brand, followed by Planet Sushi in 2004.

At the end of 2007, we had 232 operating outlets, including 63 franchised restaurants, in 25 cities and eight countries. Our COMPOUND ANNUAL GROWTH RATE STANDS AT AN ASTONISHING 38% OVER OUR FIRST 18 YEARS.

Meanwhile, we continue to grow rapidly and to create new and more efficient growth vehicles, such as Combo Units. In 2007, we opened our flagship Restaurant City Unit in the landmark Izvestiva

opened our flagship Restaurant City Unit in the landmark Izvestiya Building overlooking Moscow's Pushkin Square. The development, which features IL Patio, Planet Sushi, 1-2-3 Café, Benihana and Costa Coffee, has proved enormously popular and provides excellent visibility for our core brands.

Internationally, we are expanding our presence in Central Europe and the Baltics. In 2007, we introduced Planet Sushi to the Hungarian market on our existing T.G.I. Friday's site, creating the country's first Combo Unit. We also opened our first restaurant in Tallinn, Estonia, our 200th restaurant overall. At Riga International Airport in Latvia, we became the world's first franchisee licensed to open a T.G.I. Friday's airport format.

#### REGIONAL DEVELOPMENT

IN RUSSIA'S REGIONAL MARKETS AND THE CIS, WE ARE FOCUSED ON CITIES WITH A POPULATION ABOVE 350,000. During 2007 we increased our presence in Novosibirsk, the largest city in Siberia and the third largest in Russia, to 17 restaurants. We opened outlets in Krasnoyarsk, Barnaul and Perm. We are also establishing a presence in other large cities, opening our first restaurant in Rostov-on-Don by the end of December 2007. We introduced our Planet Sushi brand into the Czech Republic in 2007 and into the Polish market in 2008.

Our continued geographic development is made possible by our Hub City approach, which has been tested since 2004 in our operations and developments in Siberia. Given its success, we are replicating this model in other regions where we operate. We had hub cities in Moscow, Kiev, Prague, Almaty and Novosibirsk at the end of 2007. We anticipate setting up four more in 2008, in St.Petersburg, Rostov-on-Don, Samara and Yekaterinburg.

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#### **New Directions**

PART OF WHAT KEEPS US ON TOP IS THAT WE ARE ALWAYS SEEKING NEW AND EXCITING OPPORTUNITIES. One such emerging opportunity is the major investment in the modernization and development of transport facilities and infrastructure in Russia and the CIS, which promises to provide new, high-traffic locations. In 2007, we launched operations at St.Petersburg and Riga airports, in addition to our existing operation at Sheremetevo-2 airport in Moscow. Another example is our joint venture with Costa LTD, a subsidiary of Whitbread PLC, a strong international brand, to develop the Costa Coffee chain. Using Costa's excellent product and our local knowledge, we anticipate that Costa Coffee will become one of the leading coffee-house chains in Russia and eventually in Ukraine and Belarus.





**SVETLANA KNYAZEVA** | Director of Franchising Business Unit

# THIN-CRUST FRANCHISE PIZZA

Ingredients:

Slices of experience and know-how Chunks of extra support Finely grated trust and honesty And mama's own hand-tossed technical specs

In order to cook up a winning franchise pizza that can satisfy a region as big as Russia, Central Europe and the CIS, we look for reliable partners whom we can trust, and who trust our experience and openness. With our franchising recipe, we give our partners the strong brands, positive image and priceless experience they need to take advantage of their region's rapid economic growth and demand for quality casual dining. We help our partners to build up their business brick by brick and meal by meal, starting with a solid business plan and ending with marketing support on a national scale. We do everything we can to make our partners feel at home in our family and to prosper. Our franchise recipe keeps our family growing and gives us a broader appeal every year.





Pizza Primavera

Andrea Maestrelli
Brand Chef of IL Patio

Toss the dough into shape and then spread a spoonful of tomato sauce in circles to the dough's edge. Top with steamed broccoli, marinated mushrooms, fresh peppers and cherry tomatoes, onion and fried eggplant. Bake for three minutes in a brick oven, top with fresh arugula and sprinkle on oregano. With this dish, it's always spring.

## 5.4 BUILDING A FRANCHISE FAMILY

our franchisee partners.

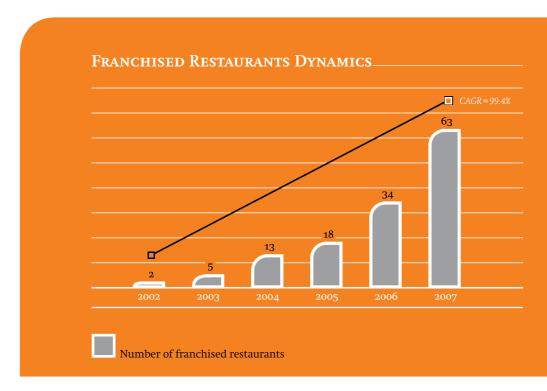
As pioneers in franchising our proprietary brands in Russia, we firmly believe that franchising is a key to our development and work towards the success of our franchise partners. We expect our franchise partners to have an important and growing role in our future development, just as they have already made an important contribution to our development in Moscow. We are proud to have many former Rosinter team members who have decided to develop their entrepreneurial skills as

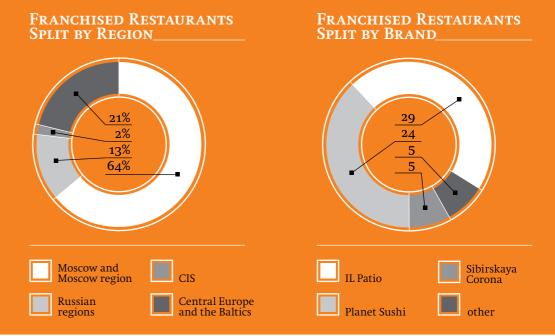
We have extensive experience with franchising, both as a franchisee operating T.G.I. Friday's restaurants for more than a decade and with our franchise partners since 2003. Today we are the only sizeable Russian provider of casual dining with proven franchise systems in place.

In 2007, we emphasised the importance of franchise development by establishing a Franchise Business Unit, responsible for bringing our franchise partners together into a family, using the best international practices combined with our local experience.

We are very selective in forming partnerships with new franchisees, and take care to ensure that the entry process from the first application stage right through to signing a franchise agreement is an accurate, well-organised and transparent process. We make sure that our standards and franchise commitments are well respected, and in

/////// annual report 2007/





return see that the expectations of our franchise partners and their day-to-day needs are met in a timely fashion.

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As of the end of 2007, our franchised restaurants accounted for 27% of our network. During the year we opened a network of 42 owned restaurants and 16 franchised outlets. In 2007, while pursuing franchise development in Moscow and St.Petersburg, we extended our programme, signing franchise agreements in a number of smaller Russian cities.

We believe that our franchise operations will grow up to 40% of our network in the future and will contribute to the success of our brands and our business.

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## **ERIC BRUNO THEROND** | Head of Research and Development

# **INNOVATION COCKTAIL**

Ingredients:

A pint of creativity
Four shots of thorough analysis
Some strawberry mixer for novelty
And a dash of constant developments

EVEN THOUGH THE R&D INNOVATION COCKTAIL IS CONSTANTLY CHANGING, THE MIX ALWAYS STAYS THE SAME. WHETHER ANSWERING FOR PRODUCT SAFETY, DEVELOPING SPECIAL MENUS AND PROMOTIONS, OR ANALYZING THE EFFECTIVENESS OF OUR BUSINESS PLAN, OUR R&D TEAM PROVIDES A RIGOROUS ANALYSIS OF THE ISSUE. WE COUNT ON R&D TO UNDERSTAND WHAT'S HAPPENING IN THE WORLD OF RESTAURANT SERVICES TODAY AND TO ANTICIPATE WHAT WILL COME TOMORROW. WE USE THEM TO GUIDE OUR MOST IMPORTANT BUSINESS PROCESSES, FROM PRODUCT AND EQUIPMENT PROCUREMENT TO DEVELOPING NEW MENU OFFERINGS AND CREATING OPTIMAL STAFF SCHEDULES TO GET A COCKTAIL THAT'S JUST THE RIGHT MIX.





ULTIMATE HAWAIIAN VOLCANO

**ALBERTO GALAN**Brand Chef of T.G.I. Friday's

Pour Southern Comfort, amaretto, vodka, pineapple juice, orange juice, lime mixer and grenadine into a cocktail shaker together with ice. Shake well and pour into an Ultimate glass. Squeeze in a slice of lemon and decorate the drink with orange and lime slices and a cocktail cherry. Now we're ready to luau!

# 5.5 QUALITY AND COMPETITIVENESS

EFFICIENCY IS THE KEY TO OUR ABILITY TO REMAIN MARKET LEADERS AS COMPETITION THROUGHOUT OUR MARKETS HEATS UP. It gives us essential competitive advantages, creating value for money in our restaurants, speeding up our roll-out process and streamlining our supply chain with economies of scale. We are particularly focused on areas such as supplies, labour, rent, IT and the cost and return on investment in new units. By combining international best practice and local knowledge, we can ensure that our guests enjoy food and service of the highest quality at the right price as we expand our presence, ultimately delivering long-term returns to our shareholders.

#### **DRIVEN BY INNOVATION**

The launch of a centralized R&D department in 2007 reinforced our long-held status as the most innovation-driven restaurant group in the CIS market. Rosinter has assembled an international team of chefs and other experts to supply our Marketing and Operations teams with effective, cost-saving solutions, drawn from the latest technology on the market and our own breakthroughs. At the same time, the team is given the space and resources required for creative thinking and experimentation. Our new R&D team is already making important contributions on the cost side, optimizing processes throughout our operations. We have established a single culinary test centre for the Company that enables our chefs to refine existing recipes and develop

new dishes using a single, common basket of ingredients. That makes the standardization of new recipes easier down the line.

Our marketing efforts are focused on maximizing the number of transactions by developing the right menu options for the right time of day. We also continue to develop ways to increase our average check by optimizing the mix of menu choices. Faced with the rising cost of food in every market where we operate, we began a review in late 2007 of portion sizes with a view to reducing costs without sacrificing quality and customer satisfaction. We use a data-driven approach to help determine the best pricing strategies in the light of customer preferences. While achieving our overall pricing goals, we have also developed strategies to ensure that our guests continue to feel that our menus provide good value for money.

#### **CENTRALIZATION**

ingly efficient management of its supply chain and the exercise of greater purchasing power leverage. To centralize our supply chain still further, in 2007 we adopted a simplified and unified Approved Product List (APL) covering all our brands and markets. Whereas we used to rely on multiple suppliers for a single product, we have now significantly streamlined the purchasing process, appointing product leaders from across the business to identify the best suppliers. This has brought us considerable savings through economies of scale, while ensuring better overall quality of ingredients and more leverage when negotiating with suppliers.

One of Rosinter's key competitive advantages arises from our increas-

Combo Units represent our drive towards centralization at the restaurant level. For new restaurant openings, we prioritize more efficient Combo Units, which combine at least two of our brands, with separate dining areas but using common kitchen and service facilities. A Combo location has lower rent and investment per seat, given the reduced space required for a kitchen and back-of-the-house premises. The format also gives us lower labour costs by sharing management and kitchen personnel. Our franchise partners have also embraced the idea of developing Combo Units whenever the location is suitable.

#### **BETTER BUSINESS PROCESSES**

The proactive application of IT solutions is improving the way we run our restaurants. One solution uses CrunchTime software, which is based on best international practice in restaurant management, to improve efficiency. We have overhauled and unified billing systems, making this process more efficient and also giving our Marketing Rosinter in Brief /5

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team valuable real-time information on sales. Innovative IT solutions have also enabled us to reduce customer waiting times and increase table turnaround times, thus boosting sales. Our broader business processes and ability to make informed decisions have been strengthened by the implementation of new, unified Enterprise Resource Planning (ERP) systems.

At the same time, we have made great strides in improving material processes such as optimizing delivery and the physical layout of restaurants. Our drive to optimize kitchen layouts and procedures has helped to maximize the efficiency of each individual cook and reduce the number of staff needed, while delivering quality meals to the guest more quickly. Such improvements lead to upgrading and re-equipment of our kitchens and give our staff a more comfortable workplace.

Given today's challenging cost environment in all our main markets,

OF HIGH INTERNATIONAL COMMODITY PRICES ON FOOD AND DELIVERY COSTS, HIGH LEASING COSTS AND INCREASING COMPETITION. Improving our efficiency will enable us to stay ahead of the competition and to continue to offer our customers exceptional quality at a great price.

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/Rosinter Restaurants Holding The Way We Run Our Business /

## 5.6 SOCIAL RESPONSIBILITY

A commitment to treating our guests, partners and employees as if they were family is at the heart of Rosinter's operations. We want our food and our team to bring people together, and we do everything we can to make this happen. This is a guiding principle in all the Company's relationships, and is apparent in a number of our initiatives both within the Company and in the society we serve.

#### THE WORKING ENVIRONMENT

Caring for each individual member is the foundation of a strong, cohesive team. Rosinter demonstrates its caring approach by creating a physical and emotional environment that motivates our employees. We design the work space in our restaurants so that our employees are as comfortable as possible and have the most effective layout to enable them to work efficiently. At the same time, we regularly single out outstanding employees and offer regular motivational personnel recognition events at both corporate and restaurant level. Our most successful employees of the year are honoured at the annual "Best of the Best" award ceremony, which in 2007 included team members from the Regional and European Business Units for the first time. We also hold an annual Company Day celebration, at which our longest-serving employees are in the spotlight. 2007 was the first year in which we had team members with 15 years of service to congratulate.

Inter-company communications are another key tool in promoting Rosinter's corporate culture. ROSINFO Review, our corporate newspaper, has been published for ten years in Russian and English, and is distributed in each city where we have restaurants. We also promote communications through our intranet, which can be accessed at the corporate office and, starting in 2007, at most of our restaurants. Our intranet network keeps the Rosinter community up to date on the development of the industry in Russia and worldwide, on recent business trends, important events for us, local news, benefits, corporate events and information and opinions from our fellow colleagues.

We firmly believe that communication between the corporate office and our restaurants should be a two-way street. In 2007, the Company developed two new forums for this purpose, for employees to voice their ideas and concerns. Employees may participate in the quarterly 'Breakfast with the President' meetings to discuss various key issues, share concerns and suggest initiatives. All employees can also put any questions directly to the President (and CEO) by way of a special e-mail address. The most frequently asked questions are answered in ROS-INFO Review.

#### FOOD SAFETY

Al the year round at our restaurants, our guests enjoy high-quality fresh products and can count on both flavour and safety. Rosinter has always striven to take the lead in implementing food safety standards in Russia and the CIS. We require all our corporate and franchise restaurants to maintain strict food safety and quality assurance programmes designed to conform to international practice. An audit system ensures that these standards are maintained. At every restaurant our team of area managers carries out comprehensive quarterly audits that evaluate all areas of food handling, preparation and storage.

We also have ongoing food safety training, to instill in our employees the importance of product quality at every stage of the food preparation cycle. We comply with all applicable statutory hygienic and pubic health procedures in the markets in which we operate. In addition, we seek to follow the Hazard Analysis Critical Control Points standards (HACCP), which are embodied in European Union law and are used by most major international restaurant chains. We are currently in the process of implementing a unified system of food safety training in accordance with HACCP. Senior managers were given introductory HACCP training in 2007.

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#### **COMMUNITY ACTION**

As a responsible corporate citizen, Rosinter devotes special attention to supporting humanitarian and charity projects. For the last five years, the Company has focused its charity projects on supporting Maria's Children Art and Rehabilitation Centre. Company employees at its restaurants and corporate centre help to organize fundraisers to support the Centre. Rosinter restaurants feature an annual exhibition of children's art, which is then auctioned off to our customers. Maria's Children brings art, painting, dancing and singing to children in orphanages, but most importantly, it helps them to explore the world and to expand their horizons.

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**AMIN MUCI** | Head of Investor Relations

# BROWNIE WITH A SCOOP OF EXPERIENCE

IIngredients:

A management biscuit pie
Three chocolaty cups of best international practice
One scoop of local experience
And drizzled with market leadership caramel

THIS IS ONE OF OUR MOST POPULAR DISHES AND A KEY RECIPE FOR SUCCESS. IT'S BEEN A BEST SELLER FOR MORE THAN 18 YEARS AND CONSISTS OF INGREDIENTS THAT OUR COMPETITORS CAN HARDLY REPLICATE. OUR PROFOUND LOCAL KNOWLEDGE AND EXPERIENCE HAVE PLAYED A KEY ROLE IN SHAPING AND DEVELOPING THE MODERN RESTAURANT BUSINESS IN RUSSIA AND THE CIS. THANKS TO OUR BROAD PRESENCE IN KEY REGIONS, WE ARE UNIQUELY POSITIONED TO DEVELOP OUR BRANDS RAPIDLY. WHEN THIS IS MIXED WITH OUR LONG-STANDING RELATIONSHIPS WITH WESTERN PARTNERS AND OUR TOP MANAGEMENT'S INTERNATIONAL EXPERIENCE, THE RESULT IS AN UNPARALLELED COMBINATION OF LOCAL KNOWLEDGE AND INTERNATIONAL BEST PRACTICE. THIS RECIPE ENSURES THAT ROSINTER WILL MAINTAIN ITS CLEAR MARKET LEADERSHIP IN CASUAL DINING ACROSS RUSSIA, THE CIS





DOUBLE CHOCOLATE FUDGE BROWNIE

**ALBERTO GALAN**Brand Chef of T.G.I. Friday's

Blend butter, sugar and vanilla in a mixing bowl and then beat in eggs. In a separate bowl, combine flour, rich cocoa and baking powder and then gradually stir it into the wet mixture. Bake in a lightly greased pan until the rich and chocolaty brownie is perfectly moist. Top with a generous scoop of vanilla ice cream, drizzle on hot fudge and caramel, and add chopped walnuts for a perfect dessert.

# SHARE CAPITAL

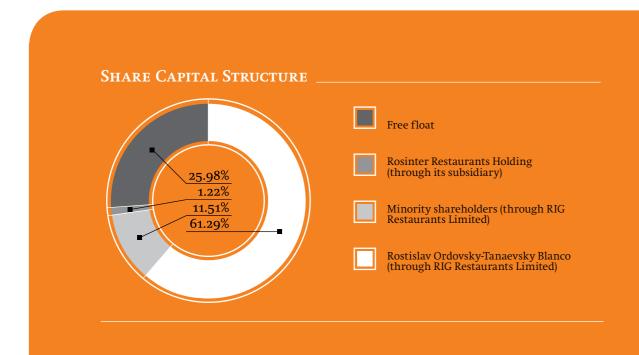
### 6.1 SHARE CAPITAL

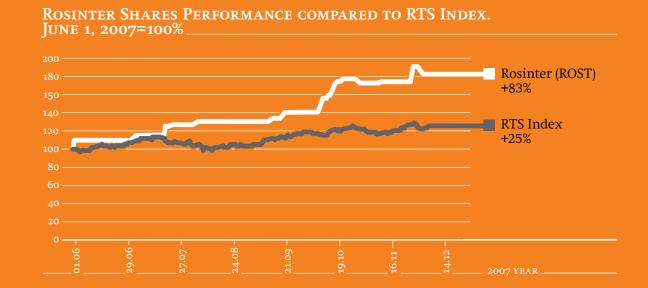
Rosinter Restaurants Holding has maintained its register of share-holders with an independent registrar since November 25, 2005. The Company makes all essential information and significant events available to all shareholders and investors, and discloses the informa-

tion on a regular basis. We endeavor to keep all the information current and update our shareholders and partners on all major developments and operational results to allow them to track our performance and

SHARE OUR SUCCESS. Our proactive communications with the global investment community strengthens our partnership with existing shareholders and attracts interest in our shares among new investors.

As of January 1, 2007, the Company's authorised and issued share capital consisted of 10,000,000 ordinary shares with a nominal value of RUR 169.7 per share. In preparation for the initial public offering an additional share issue was registered on March 15, 2007. On June 1, 2007, the Company announced the completion of the offering of 3,125,000 shares by the major shareholder, RIG Restaurants Limited,





to qualified investors, residing primarily in the UK, Germany and other European countries, as well as Russian and US offshore institutions. Following the completion of the offering at a price of US\$32.0 per share the Company issued and sold to 2,030,457 new ordinary shares at US\$29.55 per share RIG Restaurants Limited by closed subscription.

The trading of the ordinary shares of Rosinter Restaurants Holding commenced on June 1, 2007, on the RTS Russian stock exchange under ticker ROST.

On December 27, 2007, Rosinter Restaurants Holding announced the purchase of 1.22% of its shares by its subsidiary, Rosinter Restaurants LLC, from its largest shareholder, RIG Restaurants Limited, to facilitate Share Appreciation Rights Programme (SARP) for senior managers.

As of December 31, 2007, approximately 25.98% of the Company's ordinary shares were in free-float, approximately 61.29% of the shares were beneficially owned by the Company's founder and Chairman of the Board, Rostislav Ordovsky-Tanaevsky Blanco, through RIG Restaurants Limited, a Cyprus-based company. Approximately 11.51% of the shares were beneficially owned by minority shareholders of RIG Restaurants Limited, primarily Mr. Ordovsky-Tanaevsky Blanco's business partners and some key employees, and around 1.22% shares were owned by Rosinter Restaurants LLC, the Company's subsidiary, for SARP facilitation purposes.

### 6.2 SHARE PRICE PERFORMANCE

The ordinary shares of Rosinter Restaurants Holding have been traded on the RTS stock exchange under the ticker ROST since June 1, 2007. Starting initially at US\$32.0 per share, our shares continued to grow in price through 2007, reaching their high of US\$61.0 per share in early December. The Company's market capitalisation was US\$704 million as at the end of 2007.

## 6.3 DIVIDEND POLICY

The Dividend Policy of the Company is based on the strategy of reinvestment of profits to fund the continued growth of our business, which is converted into the best long-term return on investment for all of our shareholders. We have not paid any dividends in the past and do not expect to do so for the foreseeable future, in order to realize our growth strategy.

Any future payment of dividends must be recommended by our Board of Directors and approved at our General Meeting of Shareholders, in line with our Charter and the current laws of the Russian Federation.

# MANAGEMENT AND CORPORATE GOVERNANCE

Our corporate governance is applied in accordance with the Law on Joint-Stock Companies, the Charter, internal regulations, other applicable laws and regulations, and the corporate governance legislation of the Russian Federation. However, we have also adopted many governance concepts widely used in Western Europe and the United States.

**>>>** 

FROM THE START, OUR BUSINESS HAS IMPLEMENTED GOVERNANCE ACTIVITIES SUCH AS SETTING BUSINESS STRATEGY, REPORTING AND CONTROL, ESTABLISHING CULTURE AND VALUES, DEVELOPING INTERNAL POLICIES AND MONITORING PERFORMANCE.

In 1995, in a move towards openness and transparency, we adopted U.S. GAAP accounting standards and hired Ernst & Young as our external auditor. This opened the door to international institutional investors, a move of crucial importance for growth. We established quarterly board meetings featuring independent directors with international experience and following generally accepted board meeting procedures, including a published agenda, a board book and signed minutes. In 2005, we formalized our governance approach and initiated the implementation of a "Corporate Governance Framework" covering the following activities: Board Structure and Composition, Board Operations and Effectiveness, Strategy, Planning and Monitoring, Risk Management and Compliance Processes, Reporting and Control and Corporate Citizenship. At the same time, we set up an Internal Audit department and an Audit Committee.

These progressive steps over the last 12 years have enabled us to successfully complete an IPO. Our performance in running efficient operations and maintaining sustained growth has been achieved through an effective organizational structure based upon sound business practices.

Our principal decision-making bodies are the Shareholders' General Meeting, the Board of Directors, the President and the Management Board.

## 7.1 THE SHAREHOLDERS' GENERAL MEETING

The annual Shareholders' General Meeting is the Company's supreme governing body and consists of all its shareholders. It makes decisions on key business issues, including appointment of the Board of Directors, amendments to the Charter and approval of major transactions.

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## 7.2 THE BOARD OF DIRECTORS

The Board of Directors consists of seven members, including four independent members, two executive members and the principal beneficial shareholder, who serves as the Chairman. In 2007, there were four Board meetings, which served as the main communication channel between the Board and management. The major items addressed were:

- Approval of the 2008-2012 Strategic Plan
- Approval of the 2008 Operating Plan
- Quarterly review of operating results compared with the Plan
- Approval of the IPO
- Approval of the Company's External Auditor

The Board is assisted in its activities by two permanent committees: the Audit and Remuneration Committees.

#### THE AUDIT COMMITTEE

The Audit Committee reviews our tax, financial and management accounting. It is also responsible for the appointment and removal of external auditors. At the request of the Board, it examines certain activities, including major and non-arm's length transactions, and reports to the Board on its findings. Acting on its own initiative, it looks into matters that it regards as important to the Company's financial stability.

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The Board of Directors appoints the Audit Committee from among its members. The present Audit Committee was appointed in December 2005. It consists of three members:

- Maurice Worsfold (Chairman)
- David Fitzjohn
- Vladimir Mekhrishvili

#### THE REMUNERATION COMMITTEE

The Remuneration Committee is responsible for determining the compensation and benefits of the Board of Directors, members of the internal audit commission and senior management. It also defines the criteria for candidate members of the Board of Directors, the President and other senior managers and monitors and evaluates the performance of the President and our other senior managers.

The Board of Directors appoints the Remuneration Committee from among its members. The present Remuneration Committee was appointed in April 2007. It consists of three members:

- David Fitzjohn (Chairman)
- Stephen Finn
- Rostislav Ordovsky-Tanaevsky Blanco

## 7.3 THE PRESIDENT

The President is the Chief Executive Officer and the Chairman of the Management Board. The Board delegates day-to-day management of Company operations to the CEO, subject to certain defined activities and expenditure limits, over which the Board retains control. The major activities of the President are the preparation each year of an update to the Five-Year Strategic Plan and the annual Operating Plan and their presentation for approval to the Board of Directors. The President also prepares a quarterly briefing for the Board on financial performance compared with the approved Plan. The President is appointed by the Board of Directors.

# 7.4 THE MANAGEMENT BOARD

CEO is assisted in operational management by the Management Board. The Management Board has two levels. The first level meets weekly (or as requested by the CEO) and consists of the Chief Financial Officer (CFO) and two General Directors (Moscow and Regions). The second level, consisting of all other persons reporting directly to the CEO, meets monthly to share all information reviewed at the weekly meetings.

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The limits of authority and responsibility for approval/signature are set out in a document kept by the Legal Department that defines the authority of the Board and Directors, the President and all other managers, as well as activities and expenditure levels according to status. This is a key control tool, which defines reference standards for audits and serves as an operational link between the Board, Management and all employers.

The Management Board is appointed by the President.



# **BOARD OF DIRECTORS**



















The Board of Directors of Rosinter Restaurants Holding currently consists of seven members.

# **Mr. Rostislav Ordovsky-Tanaevsky Blanco** (1958) | Founder and Chairman of the Board

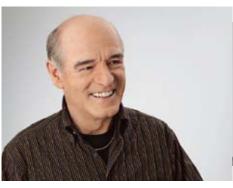
Mr. Ordovsky-Tanaevsky Blanco is the founder of the Company and its principal beneficial shareholder. Since 1990, he has played an active role in creating a modern restaurant market in Russia and has supported the establishment of the Federation of Restaurateurs and Hoteliers of the Russian Federation. He also founded Focus, the exclusive Kodak representative and distributor in the CIS from 1988 to 1995, which developed into a CIS-wide distribution network with over 400 photography stores.

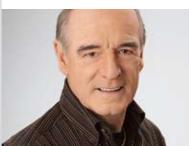
#### Mr. Pedro Mario Burelli (1958) / Vice-Chairman of the Board

Mr. Burelli has been an adviser to Mr. Ordovsky-Tanaevsky Blanco since 1992, and joined the Company in 1997 as a Non-Executive Director. He is also the Chairman of the Board of Sinergy Co, a leading Russian producer of spirits. Mr. Burelli served as a member of the Executive Board of Petroleos de Venezuela (PDVSA) from 1996 to 1999 and worked at JPMorgan from 1986 to 1996. At JPMorgan, he held positions including Head of Latin America for JPMorgan Capital Corporation, Senior Banker for the Andes, Central America and Caribbean Region, and Director of Mergers & Acquisitions for the Iberian Peninsula.

# **Mr. David Fitzjohn** (1957) / Member of the Board, Chairman of Remuneration Committee, Member of Audit Committee

Mr. Fitzjohn joined the Company in 2006 as a Non-Executive Director. Previously Mr. Fitzjohn served as Managing Director at Yum! Brands Inc. Europe (KFC, Pizza Hut and Taco Bell Restaurants) and occupied various executive management positions at Burger King, Grand Metropolitan and Laura Ashley.

















### Mr. Maurice Worsfold (1936) / Member of the Board,

Chairman of Audit Committee

Mr. Worsfold joined the Company in 1995 as CFO and, in 1997, assumed the duties of Corporate Secretary. He is currently a Non-Executive External Director and also serves as Chairman of the Audit Committee. Mr. Worsfold has served as Vice President of Audit and Controls at the NorthWestern Corporation, Vice President of Finance and CFO at VimpelCom and, in 1990, as CFO at ClearWater.

### Mr. VLADIMIR MEKHRISHVILI (1957) / Member of the Board,

Member of Audit Committee

Mr. Mekhrishvili joined the Company in 1992 as Financial Director and has served as Executive Director ever since. Mr. Mekhrishvili joined the Board of Directors in 1998 and the Audit Committee in 2006. Before joining the Company, he was the Deputy General Director for economics at the State Factory of Electronics and Computer Technologies and the Regional Financial Director for the Marco Polo international hotel chain.

#### Ms. Svetlana Knyazeva (1977) | Member of the Board

Ms Knyazeva joined the Company in 2002 as International Counsel and headed the Legal Department from 2003 until 2007. In 2007, she became Director of the Franchising Business Unit. Prior to joining the company, she served as In-House Counsel for Sun Chemical Moscow Printing Inks and other companies.

#### Mr. Stephen Finn (1948) / Member of the Board,

Member of Remuneration Committee

Mr. Finn joined the Company as a Non-Executive Director in 1997. He has served as the Chairman and CEO of Leeann Chin, Inc., a leading U.S. chain of high quality QSR Asian restaurants, since 1997. Previously Mr. Finn was President and CEO of the Bruegger's Corporation and has also served in various senior management positions at the Burger King Corporation.

# MANAGEMENT



Mr. Amin Muci / Head of Investor Relations

With the Company since 2003

MR. GIULIO D'ERME / Head of Sales and Marketing

With the Company since 2007

Ms. Svetlana Knyazeva / Director of Franchising Business Unit

With the Company since 2002



Ms. Maral Charyeva / Vice President, Director of the Moscow Business Unit With the Company since 2004

MR. GRIGORY KONSTANTINOV / Head of Human Resources With the Company since 2008

MR. NIKOLAI BUROV / Head of Information Technology With the Company since 2007

MR. VLADIMIR BORISOV / Head of Internal Audit With the Company since 2006

From the left to the right.





Ms. Lori Ann Daytner / President and CEO of the Company With the Company since 1992

MR. OLEG PANICHEV / Vice President, Director of the Regional Business Unit With the Company since 1992

MR. SERGEY ZAYTSEV / Development Director of the Regional Business Unit With the Company since 1992



MR. ERIC BRUNO THEROND / Head of Research and Development With the Company since 2006

MR. DMITRY TIMOFEEV / Head of Legal, Corporate Secretary With the Company since 2007

Ms. Valeria Silina / Head of Public Relations With the Company since 2002



MR. ALEXANDER ROSLAVTSEV / Vice President, Chief Financial Officer With the Company since 2006

**Mr. Vladislav Rogov** / CEO of Brava JV, operating Costa Coffee in Russia, Belarus and Ukraine

With the Company since 1993



ALEXANDER ROSLAVTSEV | Vice President, Chief Financial Officer

# **SYNERGY ROLLS**

Ingredients:

A bushel of volume
Three crab sticks of effective decisions
Innovation twists
And balanced business processes

To get our recipe for effective synergies just right, our not-so-secret ingredient is volume, lots of volume. As the largest casual dining restaurant operator in Russia and the CIS, we don't have to skimp on the portions. However, it's just as important to balance volume with a thorough analysis of efficiency indicators, to ensure that we get the right results. With the help of optimized business processes and innovative IT solutions, we can get the most out of our synergies and increase profit and shareholder value.







INGREDIENTS FOR EATING RIGHT

Recipe from Rosinte Brand Chefs' team

To eat right every day, you need the best ingredients available. That's why we use only the freshest vegetables and fish when making sushi, and indeed everything else our restaurants serve. The high-quality ingredients that go into our sushi, from sticky Japanese rice, fresh peppers and shitake mushrooms to shrimp, tuna and salmon, guarantee the best flavors and that every meal will be a healthy one.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion of Rosinter Restaurants Holding's financial condition and results of operations should be read in conjunction with the consolidated financial statements for the years ended December 31, 2007 and 2006, the notes thereto and the other information included elsewhere in this annual report. This section contains forward looking statements that involve risks and uncertainties. Rosinter Restaurants Holding's actual results may differ materially from those discussed in such forward looking statements.

For Significant accounting policies and estimates, commitments and contingencies and financial risk management objectives and policies, we refer to our financial statements notes 3, 26 and 27, respectively.

### 8.1 **OVERVIEW**

Rosinter Restaurants Holding is the leading casual dining operator in Russia and the CIS. We operated 232 restaurants, including 63 franchises, in 25 cities and 8 countries as of December 31, 2007. We feature some of the most recognised brands in Russia and, according to a research report by Business Analytica prepared for us, as of December 31, 2007, we had the largest market share by number of restaurants and revenue of all casual dining operators in Moscow and the widest coverage in Russian regions and CIS by number of cities and number of outlets. In 2007, we served approximately 13.6 million guests,

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an average of more than 37,000 guests each day. Our revenue for the year ended December 31, 2007, was US\$268,216 thousand compared to US\$218,626 thousand for the year ended December 31, 2006. At 2007 year-end, we had approximately 7,700 employees. On June 1, 2007, we successfully listed our shares on RTS under the ticker ROST with an initial free float of 25.976%.

We have restaurant concepts covering each of the four most popular cuisines in Russia and the CIS: Italian, Japanese, American and Russian. Our IL Patio and Planet Sushi brands, which we established, developed and promoted, are the second and third most-recognised casual dining brands in Moscow, according to a report prepared for us by In-Depth in 2007. As of December 31, 2007, in 23 cities, our IL Patio restaurants featured Italian cuisine in a casual contemporary settings. At the same time, in 20 cities our Planet Sushi restaurants offered Japanese cuisine in a soothing Asian atmosphere. Under an exclusive franchise arrangement, we operated T.G.I. Friday's restaurants in Moscow, St.Petersburg, Novosibirsk, Omsk, Minsk, Kiev, Riga, Tallinn, Prague and Budapest. Across eight cities in Siberia, the Urals and the North-West region, we operated Sibirskaya Corona (Siberian Crown) beer restaurants serving Russian cuisine under a licence agreement with Sun InBev, which owns the Sibirskaya Corona trademark. We also owned four outlets of 1-2-3 Café, a new restaurant concept that we successfully launched in December 2005 that provides traditional Russian food in a contemporary atmosphere. In December 2007, we signed a joint venture agreement with Costa LTD, a subsidiary of Whitbread PLC, to develop the Costa Coffee chain in Russia which includes the rebranding of our 11 existing Moka Loka outlets. Our first Costa Coffee flagship outlet opened in March 2008 in Pushkin square in the centre of Moscow, barely four months after we signed the joint venture agreement.

Our strategy is to continue to expand by both corporate development and franchising, while maintaining the level of good, mid-priced food and efficient, friendly service that our customers have come to expect. We vigilantly maintain quality control at all our restaurants so as to maintain our reputation for good food served in a pleasant, clean environment. We believe that this commitment, supported by marketing activities that are comparable to other leading international casual dining companies (as percentage of revenue), has built our brands and will help fuel our future growth. Our expansion is targeted to meet the demand of the burgeoning middle-class in Russia, particularly through corporate and franchise restaurants in Moscow, through corporate restaurants in cities in Russia and the CIS with more than 500,000 inhabitants, through franchise restaurants in cities with more

than 350,000 inhabitants and through both corporate and franchise restaurants in Central Europe (and the Baltics). We plan to increase the number of locations using our established restaurant concepts via corporate development and active franchising and to pursue new formats for our existing brands, in particular in locations at or near transportation facilities, such as airports and train stations, and at or near shopping malls and office complexes. Drawing on our past experience, we believe we have particular skill in identifying good locations for new restaurants which is generally one of the most important elements of a restaurant's success. We may also pursue growth through acquisitions of restaurant businesses.

# 8.2 CERTAIN FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

The Group's results of operations are affected by certain factors relating to its business and the markets in which it operates, as well as to the political, economic and legal environment in Russia, the CIS and Central Europe (and the Baltics).

#### **NEW RESTAURANTS OPENINGS**

During the periods under review, we continued to expand our business. The total number of our restaurants increased to 232 outlets as of December 31, 2007, from 174 as of December 31, 2006. The new restaurant openings have affected our results of operations in the periods under review by increasing revenues, costs of goods sold and selling, general and administrative ("SG&A") expenses. See "Results of operations for the years ended December 31, 2007 and 2006." We intend to continue to expand the Group's operations both by increasing the Group's penetration in the areas in which it currently operates and by expanding selectively into new geographic areas.

#### MULTIPLE BUSINESS MODELS

During the periods under review, we operated our business through corporate restaurants and franchised restaurants. A new corporate restaurant does not contribute to our operating profit immediately since 12 months is typically required for such new restaurant to fully mature. Unlike corporate restaurants, the franchised restaurants contribute to our operating profit immediately due to upfront franchise fees payable to us by the franchisees.

In addition, some of our corporate restaurants are operated by the Group's regional subsidiaries, which are joint ventures with regional

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partners. Pursuant to some of such arrangements, our regional partners provided loans for the construction and outfit of our restaurants in which case major part of our restaurant profit is allocated to the partner until the partner fully recovers the financing cost, following which restaurant profit or net profit of such regional partnerships is distributed pro rata to shareholdings. In all other cases all net profit is distributed pro rata to shareholdings. During the period under review, some of our Moscow restaurants operated under the profit-sharing arrangements. Those agreements provided that our partners undertook funding of all costs and expenses in connection with the construction and opening of a new restaurant as well as, in certain cases, leasing and wage costs, and we agreed to obtain all necessary permits and authorizations required for opening a new restaurant, to operate such restaurant and incur all related maintenance costs, except for those mentioned above. Accordingly, generally 90% of a restaurant's free cash flow was directed to the partner until its investment was fully recovered following which the free cash flow is split between the partner and us, typically in proportions of either 50% and 50%, or 49% and 51%, respectively.

In 2007, our Controlling Shareholder completed negotiations for the buy-out of our regional partners' interests in Belarus and Kazakhstan, who were compensated by the Controlling Shareholder with shares. Documentation related to the acquisitions mentioned above was completed in 2008. Our regional partners in Belarus and Kazakhstan have retained a 10% equity stake in the partnerships. We also completed in 2007 the acquisition of our partners ownership rights in Barnaul, Tyumen and Surgut (for which we paid in cash). Also in the same period, we terminated profit-sharing arrangements in Moscow (without cash outflows from the Group to acquire our Moscow partners rights), except for two restaurants which will remain to be operated under such arrangements. The termination of these partnership arrangements and profit-sharing arrangements had substantial impact in reducing payments to such partners in 2007.

We have developed some of our restaurants under the Combo and Multibrand formats. We believe that development through these formats has enabled us to benefit from: (i) better access to real estate at lower rental cost, (ii) opportunities for cross-selling between our brands, and (iii) investment and cost management efficiencies (including reduced space requirements, reduced investment in kitchen equipment due to the sharing of space and facilities (kitchen and service area), and reduced cost of labour due to shared management and kitchen staff). We intend to use the Combo format as our preferred development format for our corporate restaurants.

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#### MULTI-MARKET DEVELOPMENT

The Group has a focused multi-market development plan which combines simultaneous development in profitable markets and in markets with high growth potential, even if these markets might provide a lower return on investment in the short-term. Accordingly, our restaurants are subject to geographical differences, both in terms of the scale of investments required to open a new restaurant and the financial results of such new restaurant. In order to allow for efficient support to corporate and franchised development, we are accelerating the completion of our hub cities structure. At the end of 2007, we had advanced hub city structures in Moscow, Kiev, Prague, Almaty and Novosibirsk and we anticipate completing four more in 2008, in St.Petersburg, Rostov-on-Don, Samara and Yekaterinburg.

#### PRICING POLICY

By end 2007, we set in place an enhanced pricing policy that allows for selective and more frequent price adjustments and menu changes in order to adequately address increasing fluctuation in food supply prices while keeping our mid-priced positioning and margins. Usually, we selectively lower prices on the most popular menu items below the pricing of our competitors in order to draw customer traffic, thereby creating a higher differential between the lowest and highest prices in each menu category, and then encourage customers to select the higher-priced choices.



/Rosinter Restaurants Holding

#### **PURCHASING ARRANGEMENTS**

Our purchasing arrangements have a direct impact on our results of operations. As the leading casual dining operator in Russia and the CIS, we are also one of the most important customers for many of our suppliers. This enables us to negotiate discounts and other favourable terms on purchases from our suppliers. Such favourable terms allowed us to absorb the substantial increase in cost of food supplies in second half 2007 while keeping our menu prices constant untill end 2007, without materially affecting cost of food as a percentage of revenue. This strategy of delaying menu price increases allowed us to successfully strengthen our mid-priced positioning in the mind of our guests and set up a much more flexible but structured process for frequent price and menu changes through our wide network. This slightly impacted our profitability in 2007, but our strong SSSG (Same Store Sales Growth, also known as Like-for-Like) of 30.7% in US\$ in 1Q 2008, with a 12.9% increase in number of transactions, shows that our strategy was appropriate and positions us well for the future.

#### **COSTS AND EXPENSES**

We have been focusing on decreasing the cost of goods sold by: (i) reducing the number of product items that are used for preparation of food pursuant to the Approved Product List (or APL), which enables us to enhance economies of scale, and (ii) using menu engineering techniques which allows us to propose to our guests compelling menu propositions with a more efficient cost of food profile. In order to offset the impact of rising labour costs, we also introduced several initiatives such as enhanced restaurant staff scheduling monitored through the Person Minutes per Ticket KPI (restaurant staff time per check). Such initiatives enabled us to decrease the cost of labour, measured as a percentage of revenue.

Our average annual rental costs in 2007 were approximately US\$910 per square meter in Moscow, US\$394 per square meter in the Russian regions and CIS, and US\$333 per square meter Central Europe (and the Baltics), and varied depending on the location and condition of the real estate. We intend to continue leveraging our status as a preferred tenant that leases substantially larger spaces than competitors in order to obtain advantageous lease terms. We also believe that the focus on our preferred growth format, the Combo, will contribute to a more efficient use of rented space, thus reducing our rent expenses.

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#### **SEASONALITY**

We plan our marketing promotional calendar in order to manage seasonality and increase our profit. In high seasons, we conduct promotions that target an increase in average check, while in low seasons we plan promotions that target an increase in customer traffic. In Moscow, low season is from January through February (when our revenue is approximately 15% lower than the average monthly revenue for the year), and high season is from October through December (when our revenue is approximately 5% higher in October through November and approximately 15% higher in December than the average monthly revenue for the year). In May through September, where practicable we set up summer cafes attached to our restaurants, which allows us to increase our sales. The other markets in which we operate (the Russian regions, the CIS and Central Europe (and the Baltics)) have generally similar seasonality trends.

#### LOYALTY PROGRAMMES

Our loyalty programs are an important component of our marketing strategy. We have created two loyalty programmes in Russia, the HGP\* and MALINA<sup>TM</sup>. Neither program offers direct cash discounts to the customer. Instead, HGP, launched in 1998, allows participants to collect points in Rosinter restaurants (one point per currency unit spent). These points can be used to pay for next visit meals or to purchase goods from a catalogue. HGP still operates in the Russian regions. However, in April 2006, it was replaced by MALINA<sup>TM</sup> in Moscow.

<sup>\*</sup> Honoured Guest Programme

MALINA™ offers reward points based on customer purchases that can be redeemed for a wide variety of awards. Both programmes have helped us to gather market intelligence, attract new customers and gauge customer satisfaction.

#### MACROECONOMIC TRENDS

The Group's revenue is principally generated in Russia. As a result, Russian macroeconomic trends, including the overall growth in the economy and in the markets in which we operate, significantly influence the Group's results of operations. In recent years, Russia has been able to overcome the consequences of the 1998 financial crisis. Since 2000, Russia has experienced economic growth with decreasing unemployment levels and increasing levels of disposable income among the population. Since 2002, GDP growth rates in Russia have remained relatively high compared to those in North America and Western Europe. We believe that these macroeconomic factors have contributed to the increase in the Group's restaurant revenue during the periods under review.

The table below summarises certain key macroeconomic indicators relating to the Russian economy for the periods indicated.

#### YEAR ENDED DECEMBER 31, 2007-2004

	2007	2006	2005	2004
GDP growth	8.1%	6.7%	6.4%	7.2%
Consumer price index	11.9%	9.7%	11.7%	12.0%
Unemployment rate	6.4%	6.9%	8.2%	8.6%

Sources: Federal State Statistics Service; Central Bank of Russia

## 8.3 RECENT DEVELOPMENTS

In 2008, we continued to pursue our expansion strategy. The number of restaurants operated by the Group increased from 232 restaurants as of December 31, 2007, to 262 restaurants as of May 14, 2008 and, in the same period, our geographical coverage was expanded to Poland (Wroclaw), to two new cities in Kazakhstan (Astana and Atyrau), and to Ulyanovsk, a small city in Central Russia where our franchise partner opened an IL Patio, one of the first regional franchise outlets of our ambitious plan for franchisee development out of our traditional franchise market in Moscow. We intend to continue to expand the Group's operations both by increasing the Group's penetration in the areas in which it currently operates and by expanding selectively into new geographic areas.

We expect the factors that have affected our results of operations in prior years to continue to affect our results of operations in 2008.

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In addition, the following recent developments should be taken into account when assessing our results of operations.

# TERMINATION OF PARTNERSHIP ARRANGEMENTS AND PROFIT-SHARING ARRANGEMENTS

We plan to continue acquiring substantial stakes (in most cases the totality) of our regional partners' interest. Such acquisitions would have impact in reducing payments to such partners in the future and in certain cases will also allow us to accelerate further our growth in those markets.

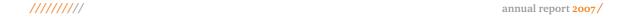
#### TRANSFER OF THE REMAINING ROSTIK'S OUTLETS

As of December 31, 2007, only 4 Rostik's outlets remained owned by the Group and consolidated in our IFRS Financial Statements. Pursuant to our business alliance with Yum! Brands, Inc., the transfer of these outlets is expected to be completed by December 31, 2008, from which date revenues of these outlets will no longer contribute to the Group's revenues.

#### SHARE APPRECIATION RIGHTS PROGRAMME

On February 11, 2008, the Group adopted an incentive plan under which 12 senior executives and 21 other employees (the "participants") were granted cash-settled share options. 120,600 options were allocated to the participants at the exercise price of \$58.5. Option grants vest over a number of months: one-third after initial period of 12 months from January 1, 2008, one third after 24 months from January 1, 2008,





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one third after 36 months from January 1, 2008. The maximum term of options granted is 4 years.

# 8.4 KEY FINANCIAL INDICATORS

# EBITDA AND ADJUSTED EBITDA

The Group uses Adjusted EBITDA, i.e., the recurrent EBITDA generated by the consolidated operations of the Group, as a measure to track improvement in overall recurrent operational profitability. To obtain the Adjusted EBITDA we add to EBITDA other income and expenses which related primarily to transactions that in management's opinion are of a non-recurring nature (for example, unrecoverable VAT related to construction terminations and other taxes write-offs, and other one-off expenses).

# ADJUSTED EBITDA CALCULATION (UNAUDITED)(1)

in thousands of US\$	<u> </u>	
	Year Ended	Year Ended
	December 31, 2007	December 31, 2006, revised <sup>(5)</sup>
Profit Before Income Tax	10,198	1,127
Interest expense, net	7,030	6,704
Increase in amounts due to partners(2)	5,490	4,743
Depreciation and Amortization	9,197	8,153
EBITDA	31,915	20,727
EBITDA Margin, %	11.9%	9.5%
Other non-recurring expenses, net <sup>(3)</sup>	4,667	5,461
ADJUSTED EBITDA	36,582	26,188
Adjusted EBITDA Margin, %	13.6%	12.0%
Depreciation charge of the low value items <sup>(4)</sup>	2,218	1,990
REVISED ADJUSTED EBITDA(5)	38,800	28,178
Revised adjusted EBITDA Margin, %	14.5%	12.9%

#### Notes:

(1) This press release contains non-IFRS measures and ratios, including EBITDA. We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our operating performance and believe EBITDA measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Each of EBITDA and Adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations are: (i) EBITDA measures do not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance, (ii) EBITDA measures do not reflect the impact of income taxes on our operating performance and (iii) EBITDA measures do not reflect the impact of depreciation and amortization on our operating performance. The assets of our business that are being depreciated or amortized will have to be replaced in the future and such depreciation and amortization expense may approximate the cost to replace these assets in the future. By excluding this expense from our EBITDA measures they do not reflect our future cash requirements for these replacements. In addition, other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We compensate for

these limitations by relying primarily on our IFRS operating results and using EBITDA measures only supplementally. EBITDA measures are measures of our operating performance that are not required by, or presented in accordance with, IFRS. EBITDA measures are not measurements of our operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business.

- (2) To obtain EBITDA we add "Increase in amounts due to partners" that corresponds to profit due during the year to our partners, in order to obtain the total EBITDA produced by our business and have a figure that could be compared with those of other companies in our sector.
- (3) To obtain the Adjusted EBITDA we add to EBITDA other income and expenses which related primarily to transactions that in management's opinion are of a non-recurring nature (for example, unrecoverable VAT related to prior years construction terminations and other taxes write-offs, and other one-off expenses).
- (4) For practical reasons we do not depreciate the high number of low value items in our restaurants (such as low value kitchen fittings, among others). Our revised adjusted EBITDA adds this effect as we believe this is of similar nature to depreciation

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(5) The Group revised 2006 adjusted EBITDA calculation by excluding loss on disposal of property and equipment, since, in our opinion, it tends to be of a recurrent nature.

# 8.5 RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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

in thousands of US\$	Year Er December	Year Ended December 31, 2006		
REVENUE	268,216	100.0%	218,626	100.0%
Cost of sales	(170,008)	63.4%	(137,901)	63.1%
GROSS PROFIT	98,208	36.6%	80,725	36.9%
Selling, general and administrative expenses Other Gains	(73,826)	27.5%	(62,734)	28.7%
Other Losses Foreign exchange gains/(losses),net	3,933 (6,327) 729	-1.5% 2.4% 0.3%	1,743 (7,832) 672	-0.8% 3.6% 0.3%
PROFIT FROM OPERATING ACTIVITIES	22,717	8.5%	12,574	5.8%
Financial income Financial expense	1,385 (13,905)	0.5% 5.2%	705 (12,152)	0.3% 5.6%
Profit before income tax	10,198	3.8%	1,127	0.5%
Income tax expense	(4,232)	-1.6%	(348)	-0.2%
NET PROFIT FOR THE YEAR	5,966	2.2%	779	0.4%
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT ENTITY BASIC AND DILUTED, US\$	0.53		0.08	

//////// annual report 2007/



# **REVENUES**

For the year ended December 31, 2007, the Group's total revenue increased by 22.7% to US\$268,216 thousand from US\$218,626 thousand for the year ended December 31, 2006. Revenue represents the total amount of sales of the Group (less discounts and VAT).

Revenue for the years ended December 31, 2007 and 2006 consisted of the following:

in thousands of USS	in	ı th	10118	an	ds	of	USS
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,	Year ended December 31, 2007	Percentage of total revenue	Year ended December 31, 2006	Percentage of total revenue	Year-on-year change
Revenue from restaurants	240,318	89.6%	202,330	92.5%	18.8%
Revenue from corporate cafes	6,547	2.4%	2,647	1.2%	147.3%
Franchise revenue	5,871	2.2%	2,913	1.3%	101.5%
Sales of semi-finished products to franchisees Sublease services and	4,764	1.8%	3,111	1.4%	53.1%
other services	4.002	1 F0/	2.696	1 70/	10.09/
	4,083	1.5%	3,686	1.7%	10.8%
Other services	6,633	2.5%	3,939	1.8%	68.4%
Total	268,216	100%	218,626	100%	22.7%

For the year ended December 31, 2007, revenue from restaurants increased by 18.8% to US\$240,318 thousand from US\$202,330 thousand for the year ended December 31, 2006 (including revenues of US\$4,329 thousand and US\$14,012 thousand for 2007 and 2006, respectively, from the regional Rostik's outlets spun-off in 2007 and the four outlets to be spun-off in 2008). If the revenue of the Rostik's outlets is excluded, for the year ended December 31, 2007, restaurant revenues increased by 25.3% to US\$235,989 thousand from US\$188,318 thousand for the year ended December 31, 2006. This increase is mainly a result of the increase in the net number of corporate restaurants to 169 from 140 (42 net openings and 13 outlets were transferred to a franchisee in December 2007), the increase in Same Store Sales Growth ("SSSG") in U.S. dollar terms of 13.5%, arising from a 2.5% increase in same store transactions, and an increase of 10.5% in same store average check in 2007 as compared with 2006.

SSSG represents a comparison in two consecutive financial years of the revenue of the same corporate restaurants that at the beginning of the first year were trading at their projected level of revenue and were not closed down permanently, expanded or downsized by the end of the second year. Based on our experience, new restaurants achieve such level on average by the end of the first 12 months of operations. The 52 restaurants selected for SSSG analysis therefore only include contents /

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restaurants that were opened on or before January 1, 2005 and uninterruptedly operated at least until December 31, 2007.

Restaurant revenue for the purposes of SSSG analysis was calculated on the basis of the net revenue of the relevant restaurants extracted from the management accounts of the Group for 2006 and 2007, translated into U.S. dollars at the average of the official exchange rates quoted by the Central Bank of Russia in the relevant year.

For the year ended December 31, 2007, revenue from corporate cafes increased by 147.3% to US\$6,547 thousand from US\$2,647 thousand for the year ended December 31, 2006. This increase is mainly a result of the increase in the net number of corporate cafes to 12 from 4.

For the year ended December 31, 2007, franchise revenue increased by 101.5 % to US\$5,871 thousand from US\$2,913 thousand for the year ended December 31, 2006, as a result of an increase in the revenue of existing franchisees and the opening of 16 new franchise restaurants.

For the year ended December 31, 2007, sales of semi-finished products to franchisees increased by 53.1% to US\$4,764 thousand from US\$3,111 thousand for the year ended December 31, 2006, in accordance with the increase in the number and the revenue of franchised outlets.

For the year ended December 31, 2007, revenue from sublease services and other services increased by 10.8% to US\$4,083 thousand from US\$3,686 thousand for the year ended December 31, 2006, consistent with the normal course of business.





For the year ended December 31, 2007, revenue from other services increased by 68.4% to US\$6,633 thousand from US\$3,939 thousand for the year ended 2006, mainly due to an increase in marketing income from the advertising of third-party products and services in our restaurants.

# **COST OF SALES**

For the year ended December 31, 2007, the Group's cost of sales increased by 23.3% to US\$170,008 thousand from US\$137,901 thousand for the year ended December 31, 2006. As a percentage of revenue, the cost of sales increased by 0.3% over the same period.

The following expenses were included in our cost of sales for the years ended December 31, 2007 and 2006, along with their percentage of revenue:

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TTI	1.11()11	ISTITI	115	()	11.5.5

т тоазиназ ој 039	Year ended December 31, 2007	Percentage of total revenue	Year ended December 31, 2006	Percentage of total revenue	Year-on-year change
Food and beverages	72,559	27.1%	58,593	26.8%	24%
Payroll and related taxes	52,435	19.5%	39,074	17.9%	34%
Rent	29,066	10.8%	23,992	11.0%	21%
Customer loyalty programmes	2,374	0.9%	5,659	2.6%	-58%
Restaurant equipment depreciation	7,009	2.6%	6,222	2.8%	13%
Utilities	6,565	2.4%	4,361	2.0%	51%
TOTAL	170,008	63.4%	137,901	63.1%	23%

For the year ended December 31, 2007, the cost of food and beverages increased by 0.3% as a percentage of revenue as compared with the year ended December 31, 2006, as the net result of the negative effect of the increase in food costs in the second half 2007 which we decided for strategic reasons to absorb until end year instead of increasing our menu prices and the positive effect of several efficiency initiatives that improved our purchasing prices and conditions.

Our decision to delay our menu price adjustments untill end year had the double purpose of strengthening our mid-priced positioning in the mind of our guests and allowing us to set up a much more flexible process for frequent price and menu changes. Our strong SSSG (L-f-L) of 30.7% in US\$ in 1Q 2008, with a 12.9% increase in number of transactions, shows that our strategy was appropriate. Our improved purchasing practices due to our focus on having a more cost-efficient approved product list, reducing the variety of items that we purchase, thereby increasing the volumes per item purchased, allowed us greater leverage when negotiating with our suppliers. By purchasing higher vol-

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umes of a smaller number of items, we were able to realise savings from better pricing.

For the year ended December 31, 2007, payroll and related taxes increased by 1.6% as a percentage of revenue as compared with the year ended December 31, 2006, as a net result of better staff scheduling and tighter monitoring of the Person Minutes Per Ticket KPI by which we measure efficiency of our restaurant staff. Improved staff scheduling resulted in a decrease in staff overtime. In 2007, we continued the comprehensive programme of analyzing and implementing appropriate best practices from our Central European operations, including analysis of work organization, adapting time schedules to better meet business needs, reengineering menu recipes to reduce production steps, testing of some partially pre-cooked/prepared products and shifting some in-restaurant production in Moscow to our central kitchen facility. In 2007, we also decreased our average number of restaurant staff to 39 per outlet as compared with 47 in 2006. In conjunction with these measures, we increased salaries by approximately 25% for key high turnover positions in order to improve our long-term ability to perform to high quality service and timeliness standards, which offset some of the savings realized from the above initiatives but which, in the long-term, should contribute to increased productivity and reduction of payroll costs as experienced employees, although more expensive, are retained, work more effectively and thereby reduce training costs.

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For the year ended December 31, 2007, rent decreased by 0.2% as a percentage of revenue as compared with the year ended December 31, 2006, due to an increased share of regional restaurants in the portfolio with lower average rent expenses per square meter.

For the year ended December 31, 2007, customer loyalty programmes decreased by 1.7% as a percentage of revenue as compared with the year ended December 31, 2006. Such decrease is mainly due to the replacement of the HGP in Moscow with the MALINA™ Programme, which reduced our loyalty program transaction costs from approximately 10% of revenues per transaction under HGP to approximately 5% of revenues per transaction under MALINA™ and due to a non-recurring income generated by the spending in our restaurants of the points cumulated by our Honored Guest Card members in Moscow.

For the year ended December 31, 2007, restaurant equipment depreciation decreased by 0.2% as a percentage of revenue as compared with the year ended December 31, 2006. This decrease was a result of normal fluctuations in course of recurrent business operations.

For the year ended December 31, 2007, utilities increased by 0.4% as a percentage of revenue as compared with the year ended December 31, 2006. The increase is mainly due to inflation in utility tariffs.

## **GROSS PROFIT**

Gross profit is the difference between revenue and cost of sales. For the year ended December 31, 2007, the Group's gross profit increased by 21.7% to US\$98,208 thousand from US\$80,725 thousand for the year ended December 31, in 2006. The increase in gross profit was due to a 22.7% increase in revenue to US\$268,216 thousand for 2007 from US\$218,626 thousand for 2006 and to a slightly more than proportional increase of 23.3% in the cost of sales to US\$170,008 thousand for 2007 from US\$137.901 thousand for 2006.

# SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

For the year ended December 31, 2007, the Group's SG&A expenses increased by 17.7% to US\$73,826 thousand in 2007 from US\$62,734 thousand in 2006. As a percentage of total revenues, SG&A expenses decreased to 27.5% for the year ended December 31, 2007, from 28.7% for the year ended December 31, 2006. The table below shows the composition of SG&A expenses for the years ended December 31, 2007 and 2006:

in thousands of US\$	Year ended December 31, 2007	Percentage of total revenue	Year ended December 31, 2006	Percentage of total revenue	Year-on-year change
Payroll and related taxes	24,137	9.0%	14,546	6.7%	65.9%
Advertising	9,031	3.4%	6,060	2.8%	49.0%
Materials	5,258	2.0%	4,608	2.1%	14.1%
Start-up expenses for new restauran	ts 5,117	1.9%	5,744	2.6%	-10.9%
Rent	5,092	1.9%	5,009	2.3%	1.7%
Maintenance and repair services	4,095	1.5%	2,823	1.3%	45.1%
Other services	3,345	1.2%	3,298	1.5%	1.4%
Laundry and sanitary control	3,262	1.2%	781	0.4%	317.7%
Depreciation and amortization	2,188	0.8%	1,931	0.9%	13.3%
Transportation services	1,858	0.7%	1,449	0.7%	28.2%
Franchising fee	1,700	0.6%	708	0.3%	140.1%
Financial and legal services	1,637	0.6%	4,883	2.2%	-66.5%
Bank services	1,650	0.6%	1,202	0.5%	37.3%
Utilities	826	0.3%	1,229	0.6%	-32.8%
Allowance for impairment of advances paid, taxes recoverable and receivables	(110)	0.0%	3,574	1.6%	-103.1%
Other expenses	4,740	1.8%	. ,	2.2%	-3.0%
Total	73,826	27.5%	62,734	28.7%	17.7%

For the year ended December 31, 2007, expenses on payroll and related taxes increased by 2.3% as a percentage of total revenue as compared with the year ended December 31, 2006. This increase reflected the needs of a growing company and the addition of highly skilled personnel as the Group pursues a more public profile. The increase also reflects increased levels of competition in the market for qualified personnel. These factors resulted in the rise of base salaries of office personnel by approximately 20%, an increase of 16% in the total number of office personnel and the creation of several new top and middle management positions at the headquarters level.

For the year ended December 31, 2007, advertising expenses increased by 0.6% as a percentage of total revenue as compared with the year ended December 31, 2006. This increase was due to a major marketing effort in Russian regions and CIS, the core growth regions for our brands, in order to support their successful and accelerated rollout after our IPO, as well as the television advertising for IL Patio, undertaken by the Group to increase sales and build brand awareness. We are the first casual dining company in Moscow and the Russian regions to use aggressive mass media advertising for its restaurants.

For the year ended December 31, 2007, expenses on materials remained almost flat as a percentage of total revenue as compared with

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the year ended December 31, 2006, in line with the rise in purchases of materials used in restaurants that is consistent with the growth in the number of restaurants.

For the year ended December 31, 2007, start-up expenses for new restaurants decreased by 0.7% as a percentage of total revenue as compared with the year ended December 31, 2006. This decrease is due to substantially higher percentage of openings in the Russian regions, where market conditions still allow for a rent-free construction period, and a lower average construction time, in 2007 as compared with 2006. The start-up expenses for new restaurants in 2006 included those associated with the launch in Moscow of four major Multibrand or Combo complexes.

For the year ended December 31, expenses on rent decreased by 0.4% as a percentage of total revenue as compared with the year ended December 31, 2006, consistent with the normal course of business and primarily due to our increasing economies of scale.

For the year ended December 31, 2007, expenses on maintenance and repair services increased by 0.2% as a percentage of total revenue as compared with the year ended December 31, 2006. The increase was due to a rise in expenses relating to the expansion or restyling of the interior of certain Moscow restaurants.

For the year ended December 31, 2007, expenses on other services decreased by 0.3% as a percentage of total revenue as compared with the year ended December 31, 2006, mainly due to increased economies of scale.

For the year ended December 31, 2007, expenses on laundry and sanitary controls increased by 0.8% as a percentage of total revenue as compared with the year ended December 31, 2006 mainly due to the outsourcing of such services since second quarter 2007, which reduced personnel expenses at restaurant level.

For the year ended December 31, 2007, expenses on financial and legal services decreased by 1.4% as a percentage of total revenue. Expenses on legal and financial services in 2006 included expenses associated to the legal restructuring of the Group.

For the year ended December 31, 2007, other expenses decreased by 0.4% as a percentage of total revenue as compared with the year ended December 31, 2006, mainly due to increased economies of scale.

# FOREIGN EXCHANGE GAINS/LOSSES, NET

For the year ended December 31, 2007, the Group experienced a net foreign exchange gain of US\$729 thousand in 2007 as compared with

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a net foreign exchange gain of US\$672 thousand in 2006, resulting primarily from fluctuations in the Rouble/US\$ exchange rate and its impact on the Rouble value of the Group's U.S.-dollar-denominated debt and intra-Group receivables and payables.

# OTHER GAINS AND LOSSES

For the years ended December 31, 2007, the Group experienced other gains of US\$3,933 thousand resulted mainly from (i) the disposal of the Company's interest in SIA Rosinter Restaurants, its subsidiary operating in Baltic countries, which became the franchisee of 13 our restaurants in the Baltic region, previously operated as corporate; (ii) other gains primarily related to the gains from insurance compensations, accounts payable balances write off and other miscellaneous gains.

Other losses in the amount US\$6,326 thousand incurred in 2007 resulted mainly from the closure of certain restaurants and write-offs related to this, including: (i) US\$1,660 loss on disposal of non-recurrent assets; (ii) US\$2,032 thousand unrecoverable VAT and other taxes write off, and (iii) US\$2,635 of other one-off expenses. (Please refer to Note 24 in the Financial Statements).

# PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is gross profit less SG&A expenses, net foreign exchange gains/losses, and other net operating gains/losses.

For the year ended December 31, 2007, profit from operating activities increased by 80.7% to US\$22,718 thousand from US\$12,574 thousand



for the year ended December 31, 2006. This increase was due to a 21.7% rise in the Group's gross profit to US\$98,208 thousand from US\$80,725 thousand, as discussed above and by a 17.7% increase in SG&A expenses to US\$73,826 thousand from US\$62,734 thousand and by a slight increase in the amount of net operating losses.

# FINANCIAL INCOME AND EXPENSE

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For the year ended December 31, 2007, the Group's total financial income, which consists of interest income, increased by 96.5% to US\$1,385 thousand from US\$705 thousand for the year ended December 31, 2006, due to an increase in cash flow available for interestbearing deposits.

For the year ended December 31, 2007, the Group's total financial expenses increased by 14.4% to US\$13,905 thousand from US\$12,152 thousand for the year ended December 31, 2006.

For the year ended December 31, 2007, the Group's interest expense decreased slightly as compared with the year ended December 31, 2006 due to the net effect of the following factors: first, reduction of our debt with IPO proceeds, and second, decrease of the weighted average interest rate to 10.2% in 2007 from 10.6% in 2006.

An increase of 15.7% in amounts due to partners to US\$5,490 thousand in 2007 from US\$4,743 thousand in 2006 was mainly due to an increase in liabilities to partners as at January 1, 2007, to US\$17,755 thousand from US\$11,495 thousand as at January 1, 2006. Our liabilities to partners further decreased to US\$14,078 thousand as at December 31, 2007, primarily as a result of US\$15,041 thousand of cash paid to our partners during 2007 in accordance with our strategy of buying-out the partners' shares in our regional business. (Please refer to Note 13 in the Financial Statements).

The remaining amount of financial expense for 2007 of US\$1,667 thousand represented an excess of cash paid over book value of liability to partners relating to ownership interest acquired in regional subsidiaries. (Please refer to Note 25 in the Financial Statements).

# PROFIT BEFORE INCOME TAX

Profit before income tax is profit from operating activities plus (i) financial income and less (ii) financial expense, but before the application of income tax. For the year ended December 31, 2007, profit before income tax increased by 804.9% to US\$10,198 thousand from US\$1,127 thousand in 2006. The increase was primarily due to a 80.7% increase in the Group's operating profit in 2007, partly offset by a 9.4% increase in total net financial expenses.

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# **INCOME TAX**

Income tax primarily relates to Russian corporate income tax. In accordance with the laws of the Russian Federation, the tax rate was 24% during 2006 and 2007. The income tax charge is based on the taxable profit of each Group entity for each period and takes into account deferred tax attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. For the year ended December 31, 2007, the Group incurred a total income tax expense of US\$4,232 thousand, of which US\$1,507 thousand of tax paid on dividend income related to dividend declared by subsidiaries. The increase of 1,316% in income tax expense resulted mainly from the nine-fold higher taxable profit in 2007 and higher amount of withholding tax related to dividends paid between Group Companies.

The effective tax rate calculated as income tax (reduced by the tax paid on dividends) divided by profit before income tax was 26.7% in 2007. The difference with 24% of income tax rate set by the legislation of the Russian Federation is primarily an effect of expenses non-deductible for tax purposes, partially offset by differences in tax rates in countries other than the Russian Federation and the effect of unified tax on imputed income paid by several subsidiaries of the Group. (Please refer to Note 17 in the Financial Statements).



# NET PROFIT FOR THE YEAR

As a result of the above, for the year ended December 31, 2007, net profit increased by 665.9%% to US\$5,966 thousand from US\$779 thousand for the year ended December 31, 2006.

# 8.6 LIQUIDITY AND CAPITAL RESOURCES

In addition to financing its existing operations, the Group's liquidity needs arise principally from the need to finance the construction and opening of restaurants. In the periods under review, the Group has been able to meet the majority of its financial liquidity needs from net cash flow provided by operating activities, bank borrowings and the proceeds obtained from its IPO in 2007.

in thousands of US\$ —	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash and cash equivalents at beginning of year	6,223	3,322
Net cash flows from operating activities	26,468	23,351
Net cash flows used in investing activities	(49,634)	(14,813)
Net cash flows from financing activities	23,438	(5,754)
Effect of exchange rate changes on cash and cash equivalents	1,542	117
Net increase in cash and cash equivalents	1,814	2,901
Cash and cash equivalents at end of year	8,037	6,223

### CAPITAL EXPENDITURES

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The Group's total capital expenditures amounted to US\$24,627 thousand in 2007 and US\$17,908 thousand in 2006, excluding start-up expenses for new restaurants, which amounted to US\$5,117 thousand in 2007 and US\$5,744 thousand in 2006.

Operating Activities. The Group's net cash flow provided by operating activities increased by 13.3% to US\$26,468 thousand for the year ended December 31, 2007, from US\$23,351 thousand for the year ended December 31, 2006. Net cash flow provided by operating activities in 2007 was used jointly with net cash flow from financing activities to finance the Group's investing activities in the amount of US\$49,634, of which a net of US\$25,340 thousand was used to fund our development. Net cash flow provided by operating activities in 2006 was used to finance the Group's development by funding investing activities in the amount of US\$14,813 thousand and to serve our financing activities in the amount of US\$5,754.

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Working capital changes decreased operating cash flow by US\$785 thousand in 2007 and US\$1 thousand in 2006 mainly due to the effect of an increase in accounts payable/receivable from related parties, net related to the sale of the Group's interests in Baltic subsidiaries and management and financial services payable to the Group. Excluding this effect, net cash flow from operating activities increased by 27.9% to US\$32,355 thousand in 2007 from US\$25,502 thousand in 2006.

Investing Activities. The Group's net cash flow used in investing activities increased by 235.1% to US\$49,634 thousand for the year ended December 31, 2007, from US\$14,813 thousand for the year ended December 31, 2006. The most significant investing activities of the Group for these periods consisted of the acquisition of property and equipment and intangible assets, investment in treasury shares for SARP and loans issued to related and third parties. With respect to the acquisition of property and equipment, the Group invested US\$24,627 thousand in 2007 and US\$17,908 thousand in 2006. These acquisitions were primarily attributable to capital investments in the construction of new restaurants during the course of the Group's expansion and to capital investments in existing restaurants. In 2007, the Group also experienced an increase in loans issued to related parties which were structured as non-recurrent profitable treasury operations of short-term nature for excess IPO funds, given that a substantial part of its outstanding debt were bonds that could not be repurchased and also due to the need to keep some activity in our credit lines.



Financing Activities. The Group's net cash flow provided by financing activities increased to US\$23,438 thousand for the year ended December 31, 2007 from a use of US\$5,754 thousand for the year ended December 31, 2006. This was principally attributable to the proceeds received by the Group in IPO from the issuance of share capital for the amount of US\$60,000 thousand, partially offset by i) the repayment of loans by the amount of US\$24,253 thousand in the year ended December 31, 2007 compared with repayment of US\$10,764 thousand for the year ended December 31, 2006 ii) the increase of net flows to partners in regional subsidiaries for the amount of US\$12,138 thousand in 2007, mainly due to the purchase of regional partners in Barnaul, Surgut and Tyumen.

# **INDEBTEDNESS**

The table below shows the composition of our debt as at December 31, 2007-2006:

	December 31, I	December 31,
	2007	2006
Long-term debt (excluding current portion)	278	38,684
Short-term debt (including current portion of long-term debt)	56,965	31,774
Current portion of long-term debt	51,681	69
Short-term debt (excluding current portion)	5,284	31,705
TOTAL DEBT	57,243	70,458

The Group aims to maintain a substantial portion of its debt of long-term nature. In order to achieve this objective it has accessed the Russian bond capital markets since 2002 and built a long-term relationship with first class bank institutions in Russia. However, given the i) characteristics of the local capital market in which bonds issues tend to provide bondholders with put options and ii) the short-term treasury allocation of part of the IPO funds to reduce debt, as of December 31, 2007 the Group's debt structure did not comply temporarily with its targeted structure. For a more detailed discussion of the debt structure and liquidity risk as at December 31, 2007, please refer to Notes 2, 15, 19 and 27 in the Financial Statements.

# OJSC Rosinter

**RESTAURANTS HOLDING** 

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# INDEPENDENT AUDITORS' REPORT

To the shareholders of OJSC Rosinter Restaurants Holding

We have audited the accompanying consolidated financial statements of OJSC Rosinter Restaurants Holding and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

#### **AUDITORS' RESPONSIBILITY**

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

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

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

#### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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# CONSOLIDATED BALANCE SHEET at December 31, 2007

(All amounts are in thousands of US\$)			
	Notes	December 31, 2007	December 31, 2006
ASSETS		2007	
Non-current assets			
Property and equipment	7	80,373	62,739
Intangible assets	6	7,105	6,105
Goodwill	5	739	_
Long-term loans due from related parties	14	368	240
Deferred income tax asset	17	3,894	3,729
Other non-current assets	17	2,314	1,584
-		94,793	74,397
CURRENT ASSETS		3 1,7 30	, 1,057
Inventories	8	6,232	4,345
Advances paid	9	5,366	5,398
VAT and other taxes recoverable		4,751	3,349
Trade and other receivables	10	2,988	1,244
Short-term loans		410	151
Short-term loans due from related parties	14	18,572	1,835
Receivables from related parties	14	6,783	1,713
Cash and cash equivalents	11	8,037	6,223
- Casir and casir equivalents		53,139	24,258
TOTAL ACCETC		· · · · · · · · · · · · · · · · · · ·	
TOTAL ASSETS		147,932	98,655
EQUITY AND LIABILITIES			
Share capital	12	71,847	58,545
Additional paid-in capital	12	14,886	14,523
Share premium	12	46,698	_
Treasury shares	12	(8,608)	_
Accumulated losses		(93,543)	(99,509)
Translation difference		4,002	2,593
TOTAL EQUITY		35,282	(23,848)
Non-current liabilities			
Long-term debt due to related parties	14	1,046	1,150
Long-term debt	15	278	38,684
Finance lease liabilities	16	334	294
Long-term liabilities to partners	13	_	14,597
Deferred income tax liabilities	17	1,592	2,041
Other liabilities	1,	_	15
		3,250	56,781
CURRENT LIABILITIES			
Trade and other payables	18	33,516	23,154
Short-term debt	19	5,284	31,705
Current portion of long-term debt	19	51,681	69
Short-term debt due to related parties	14	233	2,098
Payables to related parties	14	2,827	5,176
Income tax payable		1,418	_
Current portion of finance lease liabilities	16	363	362
Current liabilities to partners	13	14,078	3,158
•		109,400	65,722
TOTAL EQUITY AND LIABILITIES		147,932	98,655
The accommonwing notes form an integral next of these consolidates	1.0 1		

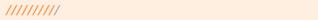
The accompanying notes form an integral part of these consolidated financial statements

# **CONSOLIDATED INCOME STATEMENT**

For the year ended December 31, 2007

216 2 08) (13 208 3 26) (6	2006 218,626 37,901) 80,725 62,734) 1,743
08) (13 208 8 26) (6	37,901) <b>80,725</b> 62,734) 1,743
2 <b>08</b> (6	80,725 62,734) 1,743
26) ( <del>6</del> 933	62,734) 1,743
933	1,743
	•
26)	(F 000)
40)	(7,832)
729	672
718	12,574
385	705
05) (1	(12,152)
ι98	1,127
32)	(348)
)66	779
·53	0.08
7 (3)	<b>718</b> 385

The accompanying notes form an integral part of these consolidated financial statements



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# **CONSOLIDATED CASH FLOW STATEMENT**

(All amounts are in thousands of US\$)			
	Notes	2007	2006**
Cash flow from operating activities			
Net profit for the year		5,966	779
Adjustments to reconcile net profit to net cash provided			
by operating activities:			
Depreciation and amortisation		9,197	8,153
Foreign exchange gains, net		(729)	(672)
Financial income	25	(1,385)	(705)
Financial expense	25	13,905	12,152
Allowance for impairment of advances paid, taxes			
recoverable and receivables	22	(110)	3,574
Allowance for impairment of inventories		187	(278)
Loss on disposal of non-current assets	24	1,660	2,371
Deferred income tax benefit	17	(450)	(2,024)
Gain on disposal of subsidiaries	24	(988)	_
		27,253	23,350
Changes in operating assets and liabilities:			
Increase in inventories		(2,581)	(585)
Increase in advances, taxes recoverable, receivables			
and other non-current assets		(3,046)	(3,787)
Increase in receivables from/payables to			
related parties, net		(5,887)	(2,151)
Increase in trade and other payables		10,729	6,524
NET CASH FLOWS FROM OPERATING ACTIVITIES		26,468	23,351
CASH FLOWS FROM INVESTING ACTIVITIES			
Issuance of loans to third parties		(2,394)	(296)
Proceeds from repayment of loans issued to third parties		2,012	162
Loans issued to related parties		(27,982)	(3,553)
Proceeds from repayment of loans issued to related parties		11,551	4,207
Purchases of property and equipment		(24,627)	(17,908)
Proceeds from disposal of property and equipment		476	3,472
Purchase of intangible assets		(1,193)	(2,217)
Proceeds from disposal of intangible assets		43	81
Interest received from bank deposit		629	390
Interest received from loans issued to related parties		498	849
Reacquisition of treasury shares	12	(8,608)	-
Acquisition of a subsidiary, net of cost acquired	5	(39)	_
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(49,634)	(14,813)

Continued on the next page

The accompanying notes form an integral part of these consolidated financial statements

# **CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**

(All amounts are in thousands of US\$)			
	Notes	2007	2006**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		60,000	_
Proceeds from related party loans		_	1,040
Repayment of related party loans		(1,064)	(645)
Distribution to the Parent		_	(6,510)
Proceeds from partners	13	4,570	7,069
Amounts paid to partners	13	(15,041)	(6,739)
Payment to acquire ownership interest in subsidiaries			
from partners	25	(1,667)	-
Proceeds from bank loans *		66,501	98,880
Repayment of bank loans *		(82,398)	(95,444)
Bank interest paid		(6,816)	(7,359)
Interest paid to related parties		(476)	(614)
Proceeds from trademark sales		_	15,000
Payments in connection with trademark sales		_	(14,579)
Proceeds from cash capital contribution	12	363	4,385
Repayment of lease obligations		(534)	(238)
NET CASH FLOWS FROM/ (USED) IN FINANCING ACTIVITIES		23,438	(5,754)
Effect of exchange rate changes on cash and cash			
equivalents		1,542	117
Net increase in cash and cash equivalents		1,814	2,901
Cash and cash equivalents at beginning of the yea	R	6,223	3,322
Cash and cash equivalents at end of the year		8,037	6,223
Supplementary cash flow information:			
Cash paid for income tax		3,939	1,666
Non-cash related party loan payable settlement		(912)	_
		, ,	

<sup>\*</sup>The Group uses financing which, due to the short term nature of this debt (i.e. 3 to 11 months), requires repayment and reissuance several times throughout the year.

The accompanying notes form an integral part of these consolidated financial statements



<sup>\*\*</sup> The Group reclassified interest received from loans issued to related parties and repayment of lease obligations from net cash flows from operating activities to net cash flows used in investing activities and net cash flows used in financing activities, respectively, in the consolidated cash flow statement for the year ended December 31, 2006.

AT DECEMBER 31, 2007

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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts are in thousands of US\$)\_ Share capital AT JANUARY 1, 2006 85,214 Effect of exchange rate changes TOTAL INCOME FOR THE YEAR RECOGNISED DIRECTLY IN EQUITY Net profit TOTAL INCOME FOR THE YEAR Decrease in share capital (Note 12) (26,669)Additional paid-in capital contribution (Note 12) Distribution to the Parent company AT DECEMBER 31, 2006 58,545 Effect of exchange rate changes TOTAL INCOME FOR THE YEAR RECOGNISED DIRECTLY IN EQUITY Net profit TOTAL INCOME FOR THE YEAR Issue of share capital, net of issuance cost (Note 12) 13,302 Additional paid-in capital contribution (Note 12) Treasury shares bought back (Note 12)

Additional paid-in capital	Share premium	Treasury shares	Accumulated losses	Translation difference	Total Equity
10,138	-	-	(120,447)	2,380	(22,715)
_	-	_	_	213	213
_	_	_	_	213	213
_	_	_	779	5	779
_	-	_	779	213	992
_	_	_	26,669	_	_
4,385	_	_	_	_	4,385
_	-	_	(6,510)		(6,510)
14,523	-	-	(99,509)	2,593	(23,848)
_	_	_	_	1,409	1,409
_	_	_	_	1,409	1,409
_	-	-	5,966	-	5,966
_	_	_	5,966	_	5,966
_	46,698	_	_	_	60,000
363	_	_	_	_	363
_	_	(8,608)	_	_	(8,608)
14,886	46,698	(8,608)	(93,543)	4,002	35,282

The accompanying notes form an integral part of these consolidated financial statements



71,847

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts are in thousands of US\$, unless specified otherwise)

#### 1. CORPORATE INFORMATION

OJSC Rosinter Restaurants Holding (the "Company") was registered as a Russian open joint stock company on May 24, 2004. The registered and headquarter address of the Company is at 7 Dushinskaya str., Moscow, 111024, Russia. As of December 31, 2007, the Company's controlling shareholder was RIG Restaurants Limited, a limited liability company (the "Parent") (formerly known as Rostik Restaurants Limited) incorporated under the laws of Cyprus. RIG Restaurants Limited is under the ultimate control of Mr. Rostislav Ordovsky-Tanaevsky Blanco.

OJSC Rosinter Restaurants Holding and its subsidiaries (the "Group") is the leading casual dining operator in Russia and CIS both by number of restaurants and by revenue. The Group's business is focused in serving the most popular cuisines in Russia: Italian, Japanese, American and local Russian cuisine.

The Group derives approximately 90% of its revenues from restaurant business sales:

- most of the Group's restaurants operate under its core proprietary trademarks: "IL Patio pizza pasta grill", "Planet Sushi", "American Bar and Grill", "Café Des Artistes", "Pechki-Lavochki", "El Rincon Espanol" and "1-2-3 Café". The Group also owns the "Santa Fe" restaurant.
- Other restaurants operate under licensed trademarks: "T.G.I. Friday's", "Sibirskaya Korona" and "Benihana".

Other revenue of the Group represents revenue from the network of independent franchisees in Moscow and throughout Russia and the CIS, sublease and other services, revenues from corporate cafés and from sales of semi-finished products.

The Group's principal business activities are concentrated within the Russian Federation, but it also operates in Ukraine, Belarus, Kazakhstan, Latvia, Estonia, Czech Republic and Hungary. The Group also has exclusive development rights and/or registered trademarks in Azerbaijan, Kyrgyzstan, Uzbekistan, Moldova, Estonia, Lithuania, Austria, Poland, Czech Republic, Hungary, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro.

The Group was formed during 2004 to 2006 through a reorganization of entities under common control of the Parent, in which the shares of the subsidiaries were contributed into the share capital of the Company.

On June 2007, the Parent sold 3,125,000 ordinary shares of the Company during the Initial Public Offering for a cash consideration of \$100,000. At the same time, the Company issued and sold 2,030,457 new shares to the Parent at a price of \$29.55 per share. The nominal price of the shares issued was 169.7 Russian roubles (\$6.55 at the transaction date exchange rate). The shares of the Company sold by the Parent were admitted for trading on the Russian Trading System Stock Exchange.

The consolidated financial statements of the Company for the year ended December 31, 2007 were authorised for issue in accordance with a resolution of the CEO on May 12, 2008.

The Group derives revenue in the territory of Russia and other CIS countries, Baltic States and European countries. For the years ended December 31, 2007 and 2006, the revenues from the Russian market were approximately 79% and 83% of total revenues, respectively.

As of December 31, 2007 and 2006, the Group employed approximately 7,700 and 7,200 people, respectively.

**OISC ROSINTER RESTAURANTS HOLDING** 

Notes to the consolidated financial statements (continued)

### 1. CORPORATE INFORMATION (CONTINUED)

The Company had a controlling ownership interest, directly or indirectly, in the following principal subsidiaries:

Entity	Country of incorporation	2007	2006	
		% Ownership	% Ownership	
Rosinter Restaurants LLC	Russia	98.70%	98.00%	
Rosinter Restaurants Samara LLC	Russia	51.00%	51.00%	
Rosinter Restaurants Perm LLC	Russia	51.00%	51.00%	
Rosinter Restaurants Novosibirsk LLC	Russia	100.00%	94.45%	
Rosinter Restaurants Yekaterinburg LLC	Russia	51.00%	51.00%	
BelRosInter LLC	Belarus	58.59%	58.59%	
Rosinter Almaty LLP	Kazakhstan	51.00%	51.00%	
Rosinter Ukraine LLC	Ukraine	51.00%	51.00%	
SIA Rosinter Restaurants	Latvia	_	51.00%	
SIA Food Service	Latvia	_	51.00%	
RIGS Services Limited	Cyprus	100.00%	100.00%	
Rosinter Czech Republic, s.r.o.	The Czech Republic	100.00%	100.00%	
Rosinter Hungary Kft	Hungary	100.00%	100.00%	
Rosinter Oktogon Kft	Hungary	100.00%	100.00%	

During 2007 and 2006, the Group opened 42 and 18 new restaurants, respectively. In addition, the Group continues to develop a casual dining restaurant business on a franchise agreement basis. The Group opened 16 and 12 franchise restaurants in Moscow city and Moscow region in 2007 and 2006, respectively. As of December 31, 2007, the Group operated 232 restaurants and 5 other outlets.

#### 2. Going Concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business.

The Group's current liabilities as of December 31, 2007 of \$109,400 exceeded its current assets by \$56,261. The net current liability position primarily results from bonds payable in the total amount of \$39,971 with a maturity date of November 26, 2010 and liabilities to partners in the amount of \$14,078. The bonds were reclassified from long-term to short-term debt due to an early redemption option exercisable in May 2008 (see Note 15). Liabilities to partners were reclassified from long-term to short-term liabilities as the Group has the intention to settle such liabilities during 2008.

Group management believes that it is appropriate to prepare the financial statements on a going concern basis due to the following:

- The Group has \$13,950 of open credit lines as of December 31, 2007 and approximately \$9,000 of credit line requests pending the approval of credit committees of these banks.
- The Group generates significant operating cash flows. In 2007 and 2006, the Group generated \$26,468 and \$23,351 of net cash from operating activities, respectively. The Group is expecting such cash flows to increase in 2008 in line with the growth in the overall business activity.
- Management expects that the bonds will not be settled in May 2008, as bond-holders view them as attractive investments due to the following:
  - On May 14, 2007, the Company met the requirements of the Russian stock exchange commission and received a B rating for its bonds giving more liquidity and transparency to the bonds;





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

# 2. Going Concern (continued)

- During the year ended December 31, 2007, the Company demonstrated growth in revenue, profits and cash flows;
- The Group became public and had an IPO in 2007.
- Liabilities to partners were reclassified to current liabilities based on management intention to settle these liabilities during 2008. The Group has no contractual obligation to repay its liabilities to partners during 2008.
- Management has introduced enhanced operational initiatives designed to improve the Group's liquidity and its capital expenditure process. Actions implemented include, among others, an improvement in the business economics through savings in labour, food and beverage costs, and an increased franchised component in its new restaurant development plan.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary if such additional resources are not available and the Group is unable to continue as a going concern.

#### BASIS OF PREPARATION OF FINANCIAL STATEMENTS

#### STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

#### BASIS OF PREPARATION

Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which they are incorporated and registered. Accounting policies and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for such financial statements to be presented in accordance with the standards and interpretations prescribed by the IASB.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies in Note 4.

As discussed above, the Group was formed through the reorganization of entities under common control using the pooling of interests method. Assets and liabilities were recognised using the carrying value of the predecessor companies.

#### CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2007.

Adoption of New and Revised International Financial Reporting Standards

The Group has adopted new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2007:

- IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7");
- IAS 1 (amended 2005) "Presentation of Financial Statements Capital Disclosures" ("IAS 1 (amended)");
- IFRIC 8 "Scope of IFRS 2" ("IFRIC 8");
- IFRIC 9 "Reassessment of Embedded Derivatives" ("IFRIC 9");
- IFRIC 10 "Interim Financial Reporting and Impairment" ("IFRIC 10").

**OISC ROSINTER RESTAURANTS HOLDING** 

Notes to the consolidated financial statements (continued)

#### 3. Basis of Preparation of Financial Statements (continued)

# CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 7 requires disclosures that enable users to the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included in these consolidated financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

Upon application of the Amendment to IAS 1 (amended), the Group changed the format of presentation of disclosures relating to the objectives, policies and processes for managing capital. These new disclosures are shown in Note 27.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies.

IFRIC 9 clarifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, this interpretation had no impact on the financial position of the Group.

There were no significant effects of these changes in policies on these consolidated financial statements. However, the adoption of IFRS 7 significantly affects the disclosures relating to financial instruments as presented in the Note 27 of these consolidated financial statements.

IFRSs and IFRIC Interpretations not yet Effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 8 "Operating Segments" ("IFRS 8");
- IFRS 2 "Share-based Payments" ("IFRS 2") Vesting Conditions and Cancellations;
- IFRS 3R "Business Combinations" ("IFRS 3R") and IAS 27R "Consolidated and Separate Financial Statements" ("IAS 27R");
- IAS 1 "Presentation of Financial Statements" Revised;
- Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments" ("Amendments to IAS 32 and IAS 1");
- IAS 23 "Borrowing Costs" Revised ("IAS 23 (revised)");
- IFRIC 11 "IFRS 2 Group and Treasury Share Transactions ("IFRIC 11")";
- IFRIC 12 "Service Concession Arrangements" ("IFRIC 12");
- IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13");
- IFRIC 14 "IAS 19 The Limit on a Defined Benefit Asset, Minimum Finding Requirements and their Interaction" ("IFRIC 14").

IFRS 8 requires disclosure of information about an entity's operating segments. The provisions are effective for reporting periods beginning on or after January 1, 2009.





#### 3. Basis of Preparation of Financial Statements (continued)

# CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The amendment to IFRS 2 was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

The revised IFRS 3R and IAS 27R were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 1 "Presentation of Financial Statements" has been revised to enhance the usefulness of information presented in the financial statements and must be applied for annual reporting periods that commence on or after January 1, 2009.

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

IAS 23 (revised) eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. IAS 23 (revised) becomes effective for annual periods beginning on or after January 1, 2009.

IFRIC 11 addresses the issue as to whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after March 1, 2007.

IFRIC 12 addresses the accounting issues relating to the public-to-private service concession arrangements. An entity shall apply this interpretation for annual periods beginning on or after January 1, 2008.

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transactions. The consideration received in the sales transactions is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. An entity shall apply this interpretation for annual periods beginning on or after July 1, 2008.

#### **OISC ROSINTER RESTAURANTS HOLDING**

Notes to the consolidated financial statements (continued)

#### 3. Basis of Preparation of Financial Statements (continued)

# CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRIC 14 addresses how to assess the limit under IAS 19 "Employee Benefits", on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. An entity shall apply this interpretation for annual periods beginning on or after January 1, 2008.

The Group plans to apply standards and interpretations not yet effective for annual periods beginning on or after their effective dates.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's results of operations and financial position in the period of initial application.

#### 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

#### PRINCIPLES OF CONSOLIDATION

#### Subsidiaries

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries.

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

#### Investment in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the income statement, its share of movements in reserves is recognised in equity and its share of the net assets of associates is included in the consolidated balance sheet. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

# Interest in Joint Ventures

The Group's interest in joint venture which is jointly controlled entity is accounted for using the equity method of accounting until the date on which the Group ceases to have joint control over the joint venture. When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognise its share of the profit of the joint venture from the transaction until it resells the assets to an independent party.





Notes to the consolidated financial statements (continued)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

#### INVESTMENTS AND OTHER FINANCIAL ASSETS

Financial assets within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-forsale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Investments classified as held for trading are included in the category "financial assets at fair value through profit or loss". Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in profit and loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. During the years ended December 31, 2007 and 2006, the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. During the years ended December 31, 2007 and 2006, the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. As at December 31, 2007 and 2006, the Group had no available-for-sale financial assets.

Other non-current assets include rent security deposits made by the restaurants.

#### **FUNCTIONAL AND PRESENTATION CURRENCY**

The Group has chosen the US dollar as the presentation currency as being more convenient for the major current and potential users of the consolidated financial statements.

**OISC ROSINTER RESTAURANTS HOLDING** 

Notes to the consolidated financial statements (continued)

### 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

#### FUNCTIONAL AND PRESENTATION CURRENCY (CONTINUED)

The functional currency of the Company and its subsidiaries located in the Russian Federation is the Russian rouble (the "rouble"). The functional currency of the subsidiaries located in other countries is other local currency. The translation of the financial statements from the functional currency to the presentation currency is done in accordance with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" (revised). As at the reporting date, the assets and liabilities of the subsidiaries which use the rouble or other local currency as the functional currency are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Equity items, other than the net profit or loss for the period that is included in the balance of accumulated profit or loss, are translated at the historical exchange rate effective at the date of transition to IFRS. Equity transactions measured in terms of historical cost in a functional currency are translated using the exchange rates at the date of the transaction. The exchange differences arising on the translation are taken directly to a separate component of equity.

Transactions in foreign currencies in the Company and each subsidiary are initially recorded in the functional currency at the rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the rate of exchange ruling at the balance sheet date. All resulting differences are recorded as foreign currency exchange gains or losses in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and in hand, cash in transit and short-term deposits with an original maturity of three months or less.

#### RECEIVABLES

Receivables, which generally have a short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts. Impaired debts are derecognised when they are assessed as uncollectible.

#### VALUE ADDED TAX

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

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# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

#### **INVENTORIES**

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realizable value. Cost of inventory is determined on the first-in, first-out basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

#### GOODWILL

Goodwill represents the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortized. Instead it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. As at the acquisition date any goodwill acquired in acquisitions is allocated to each of the cash-generating units or groups of cash-generating units expected to benefit from the combination's synergies, irrespective of whether other assets and liabilities of the Group are assigned to those units or group of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## PROPERTY AND EQUIPMENT

Property and equipment are recorded at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. At each reporting date, management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on property and equipment principally on a straight-line basis from the time the assets are available for use, over the following estimated economic useful lives:

Description	Useful life, years
Leasehold improvements	10
Buildings	30
Restaurant equipment	4-10
Computer equipment and electronics	4
Office furniture and fixtures	10
Vehicles	5-10

Depreciation attributable to restaurants is presented in cost of sales; other depreciation is presented within selling, general and administrative expenses in the consolidated income statement. Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale and the date the asset is derecognised.

**OISC ROSINTER RESTAURANTS HOLDING** 

Notes to the consolidated financial statements (continued)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

#### PROPERTY AND EQUIPMENT (CONTINUED)

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised if it can be clearly demonstrated that they extend the life of the asset or significantly increase its revenue generating capacity beyond its originally assessed standard of performance, and the assets replaced are derecognised. Gains and losses arising from the retirement or disposal of property and equipment are included in the consolidated income statement as incurred.

Assets under construction are stated at cost which includes cost of construction and equipment and other direct costs. Assets under construction are not depreciated until the constructed or installed asset is ready for its intended use.

#### **BORROWING COSTS**

Borrowing costs of the Group include interest on bank overdrafts, short-term, long-term credit facilities and bonds. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated as the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. For the year ended December 31, 2007 and 2006, the Group capitalised borrowing costs for leasehold improvements in the amount of \$225 and \$529, using the capitalization rate of 9.96% and 8.93%, respectively.

## START-UP EXPENSES FOR NEW RESTAURANTS

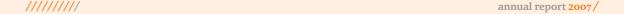
Start-up expenses for new restaurants represent costs related to the construction and the opening of new restaurant premises. Such expenses include rent and payroll expenses, new personnel training and other overhead expenses that arise before the opening of new restaurants. Start-up expenses for new restaurants are recognised as general and other operating expense in the accounting period the related work was performed.

### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives from 4 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset. The following specific amortization terms are applied for each type of intangible asset:

The Group capitalises franchise lump sums paid to T.G.I. Friday's Inc. for each new restaurant opened by the Group under "T.G.I. Friday's" brand name. Such franchise lump sums are amortized on a straight-line basis over the franchise contractual period of 15 years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

# INTANGIBLE ASSETS (CONTINUED)

The Group has exclusive rights to lease and sublease a number of restaurant premises. These rights are accounted for at cost and are amortized on a straight-line basis over the useful life period, generally from 4 to 10 years.

Software development costs are capitalised in accordance with requirements of IAS 38 "Intangible assets" at cost and are amortized on a straight-line basis over their estimated useful lives, generally five years.

#### LEASES

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Depending on contractual terms, the operating lease payment amounts are calculated for each restaurant as either a percentage of revenue with a minimum fixed monthly payment or as a fixed monthly payment. Some lease agreements contain escalation clauses.

## Loans and Borrowings

Loans and credit facilities are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and credit facilities are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the loan.

# Provisions

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

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

**OISC ROSINTER RESTAURANTS HOLDING** 

Notes to the consolidated financial statements (continued)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED) EQUITY

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the balance sheet date but before approval of the financial statements are not recognised as a liability at the balance sheet date in accordance with IAS 10 "Events After the Balance Sheet Date".

Treasury Shares

Own equity instruments which are reacquired by the Group ("treasury shares") are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Treasury shares are not recognised as a financial asset regardless of the reason for which they are reacquired.

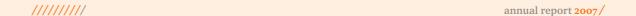
#### LIABILITIES TO PARTNERS

Before 2007, the Group entered into partnership agreements with third parties (the "partners") in respect of opening and operating the new restaurants. In accordance with the partnership agreements, the partners have the right to obtain a share in profits of a particular restaurant or group of restaurants in return for their initial cash investments into the restaurants. The Group manages the operations of the restaurants. The Group recognises all assets and liabilities of the restaurant in the Group's consolidated financial statements as well as all income and expenses from their operations. In addition, the Group recognises a liability to partners under the partnership agreements.

Some of the Group's subsidiaries in Russia and CIS are incorporated in the legal form of limited liability companies (LLC) and have several participants (or partners). Each participant has a right to a dividend distribution proportional to its ownership interest. In addition to the contribution to the charter capital the partners provide LLCs with interest-bearing or interest-free loans which are linked to their ownership interest in a LLC. If a participant decides to exit the LLC, the company is obliged to repay the actual value of the participant's interest which is determined as its proportional share of net assets reported in the local statutory accounts. Therefore, the partners' interest in these LLCs and loans provided are classified as a liability to partners in the Group's consolidated balance sheet.

At initial recognition, the liability to partners is recognised at its fair value which is equal to the initial cash investment of the partner. Subsequently, the liability to partners is measured at amortised cost which is calculated as the net present value of the estimated future payments to the partner using an effective interest method and any unwinding of the discount is reflected in the income statement as a finance charge. If the estimates of the future cash payments to the partner change, the carrying amount of the liability is recalculated by computing the present value of estimated future cash flows at the original effective interest rate. The adjustment is recognised as finance income or expense in the consolidated income statement. The income attributed to the partners is presented as a finance expense in the consolidated income statement.

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Notes to the consolidated financial statements (continued)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

#### LIABILITIES TO PARTNERS (CONTINUED)

The differences between the carrying values of partners liabilities relating to acquired ownership interest and the consideration paid to acquire ownership interest are recognized as financial expense. During the years ended December 31, 2007 and 2006, such financial expense amounted to \$1,667 and nil, respectively.

#### REVENUE RECOGNITION

Revenues are recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or receivable and comprise amounts received following direct sales in restaurant and amounts received or receivable from franchise holders, net of any rebates, VAT and other sales taxes.

The following specific recognition criteria must also be met before revenue is recognised:

Revenues from Restaurants

Restaurant revenues are recognised when food and beverages are served. Revenues from food distribution are recognised upon delivery to the customers. Revenues are recognised at fair value of meals and services delivered, net of value added tax charged to customers.

#### Franchise Revenues

Franchise fees comprise continuing franchise fees, which are charged for the use of the continuing rights granted by the franchise agreements and for other services provided during the period of the agreement. Franchise fees are recognised as revenues as the rights are used or the services are provided.

#### Sublease Revenues

The Group leases certain premises. Parts of these premises are subleased to third parties. Sublease revenues are recognised over the lease term.

#### Royalty Income

The Group owns several trademarks and intellectual properties. Royalty income from an individual licensee is recognised as a percentage of its revenue over the period of the royalty agreement. Royalty fees are reported as royalty revenue when the fees are earned and become receivable.

# Interest Income

Interest is recognised using the effective interest method.

#### **EMPLOYEE BENEFITS**

The Company accrues for the employees' compensated absences (vacations) as the additional amount that the Company expects to pay as a result of the unused vacation that has accumulated at the balance sheet date.

Under provision of the Russian legislation, social contributions are made through a unified social tax ("UST") calculated by the Group by the application of a regressive rate (from 26% to 2%) to the annual gross remuneration of each employee. The Group allocates the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund varies from 20% to 2% depending on the annual gross salary of each employee. The Group's contributions relating to UST are expensed in the year to which they relate. Total contributions for UST amounted to \$11,729 and \$8,027 during the years ended 31 December 2007 and 2006, respectively, and they were classified as payroll expenses in these consolidated financial statements.

#### **OISC ROSINTER RESTAURANTS HOLDING**

Notes to the consolidated financial statements (continued)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED) LOYALTY PROGRAMMES

The Group uses the "Honoured Guest" and "Malina" loyalty programmes to build brand loyalty, retain its valuable customers and increase sales volume. The programmes are designed to reward customers for past purchases and to provide them with incentives to make future purchases. Each time a customer buys meals in one of the Group's restaurants, the Group grants the customer loyalty award credits.

The "Honoured Guest" programme operates in Russian regions and a customer can redeem the award credits as they are granted for free meals. The "Malina" programme operates in Moscow region and a customer using this programme can redeem the award credits as they are granted only for getting goods and services listed in a special catalogue and provided by a programme operator.

The Group recognises revenue as the gross consideration paid by customers and recognizes awards as a component of cost of revenue.

#### **TAXES**

#### Current Income Tax

Current income tax assets and liabilities for the current and prior periods shall be measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

# Deferred Income Tax

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is provided for temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is calculated at rates that are expected to apply to the period when the asset is realized or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recognised in equity.





Notes to the consolidated financial statements (continued)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

TAXES (CONTINUED)

Unified Tax on Imputed Income

Certain restaurants of the Group's subsidiaries located outside the Moscow region with restaurants meeting specified criteria are subject to unified tax on imputed income paid instead of corporate income tax, value added tax, property tax and unified social tax. According to the Russian Tax Code companies engaged in restaurant and catering services are subject to unified tax if a trading area of a restaurant does not exceed 150 square metres. For the years ended December 31, 2007 and 2006, the share of revenues subject to unified tax on imputed income amounted to approximately 13% and 11%, respectively. Imputed income is calculated as a fixed amount of imputed income per square meter of a trading area specified by the Russian Tax Code and respective regional/local authorities. Unified tax on imputed income is fixed at 15% of imputed income.

The Group recognizes the unified tax on imputed income as other general and administrative expenses in its consolidated income statement. For the years ended December 31, 2007 and 2006, the unified tax on imputed income amounted to \$111 and \$128, respectively.

#### ACCOUNTING JUDGEMENTS AND ESTIMATES

On an on-going basis, management of the Group evaluates its estimates and assumptions. Management of the Group bases its estimates and assumptions on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the Group's consolidated financial statements actual results may vary from these estimates.

#### **Judgements**

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

### Classification of Lease Agreements

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

#### **OISC ROSINTER RESTAURANTS HOLDING**

Notes to the consolidated financial statements (continued)

### 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### **Operating Lease Terms**

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. When determining the lease term, the Group includes the option periods which relate to its preferential right to renew the lease agreement under the Civil Code of the Russian Federation provided the Group has complied with the lease agreement terms (all other conditions being equal). Preferential right arises if the lessor refused to enter into a lease agreement with the lessee for a new term, but within one year from the date of expiration of the lease agreement with the lessee entered into a lease agreement with a third party. In such case the lessee is entitled to claim through the court the transfer to him of the rights and responsibilities under such an agreement and compensation of damages caused by refusal to renew the lease agreement and/or to claim above damages only. Preferential right does not exist if the lessor decides not to continue leasing the property.

# Partnership Agreements

In order to raise capital for the development of its restaurants in the Moscow region, the Group has entered into a number of partnership agreements. The Group has determined that, under the terms of the partnership agreements, it maintains full control of the restaurants business while partners gain a share in the profits of the restaurants.

#### **Estimation Uncertainty**

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

### Useful Lives of Property and Equipment

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

### Impairment of Property and Equipment

Generally, the Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, which is determined as the higher of an assets fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The Group recognised no impairment losses for the years ended December 31, 2007 and 2006.

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Notes to the consolidated financial statements (continued)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2007 and 2006 was \$739 and nil, respectively.

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Allowance for Impairment of Advances Paid, Taxes Recoverable and Receivables

Management maintains an allowance for impairment for doubtful advances paid and receivables to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group, inability of franchisees to settle their debts and unrecoverable taxes. When evaluating the adequacy of an allowance for impairment of advances paid, taxes recoverable and receivables, management bases its estimates on specific analysis of the major outstanding prepayments, taxes recoverable and accounts receivable balances and historical write-off experience. If the financial condition of those suppliers or franchisees were to deteriorate, actual write-offs might be higher than expected. As of December 31, 2007 and 2006, the allowance for impairment of advances paid, taxes recoverable and receivables amounted to \$1,540 and \$2,156, respectively.

Allowance for Impairment of Inventory

Management of the Group regularly reviews the need to provide for slow moving or damaged inventory based on monthly aging and inventory turnover report as well as based on physical inventory observation. As of December 31, 2007 and 2006, the allowances for impairment of inventory amounted to \$1,509 and \$1,217, respectively.

**Current Taxes** 

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Russian tax legislation is subject to varying interpretation and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest. The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. During the years ended December 31, 2007, 2006 and 2005, the Group reduced its costs of operations by approximately \$800, \$8,000 and \$10,000, respectively, through the utilization of certain tax planning strategies. Other possible uncertain tax positions amounted to \$1,300 at December 31, 2007. See also Note 26 – Commitments and Contingencies.

**OISC ROSINTER RESTAURANTS HOLDING** 

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

# 4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Deferred Tax Assets

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

### 5. Business Combinations

On May 25, 2007, the Group acquired a 100% ownership interest in Mister Lee LLC ("Mister Lee"), a Russian limited liability company, for cash consideration of 1,000,000 Russian roubles (\$39 at the exchange rate at the date of transaction). The acquisition resulted in excess of the purchase price over the fair value of the net liabilities assumed of \$778, which was recorded as goodwill in the amount of \$739. Net profit of Mister Lee was included in the Group's consolidated income statement from the date of acquisition in the amount of \$63.





Notes to the consolidated financial statements (continued)

# 6. Intangible Assets

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The movement in intangible assets for the year ended December 31, 2006 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks *	Software	Total
Cost					
At December 31, 2005	496	2,896	14	1,198	4,604
Additions	98	70	856	1,253	2,277
Disposals	(37)	(20)	(3)	(30)	(90)
Translation difference	45	271	_	130	446
At December 31, 2006	602	3,217	867	2,551	7,237
ACCUMULATED AMORTIZATION					
At December 31, 2005	(110)	(403)	(2)	(126)	(641)
Charge for the year	(32)	(306)	(10)	(96)	(444)
Translation difference	(15)	(29)	_	(3)	(47)
At December 31, 2006	(157)	(738)	(12)	(225)	(1,132)
NET BOOK VALUE					
AT DECEMBER 31, 2005	386	2,493	12	1,072	3,963
AT DECEMBER 31, 2006	445	2,479	855	2,326	6,105

OJSC ROSINTER RESTAURANTS HOLDING

Notes to the consolidated financial statements (continued)

# 6. Intangible Assets (continued)

The movement in intangible assets for the year ended December 31, 2007 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks *	Software	Total
Cost					
At December 31, 2006	602	3,217	867	2,551	7,237
Additions	83	_	14	1,104	1,201
Disposals	(165)	_	_	(90)	(255)
Translation difference	47	322	1	236	606
At December 31, 2007	567	3,539	882	3,801	8,789
ACCUMULATED AMORTIZATION					
At December 31, 2006	(157)	(738)	(12)	(225)	(1,132)
Charge for the year	(55)	(318)	(57)	(123)	(553)
Disposals	40	_	_	82	122
Translation difference	(12)	(73)	-	(36)	(121)
At December 31, 2007	(184)	(1,129)	(69)	(302)	(1,684)
NET BOOK VALUE					
AT DECEMBER 31, 2006	445	2,479	855	2,326	6,105
AT DECEMBER 31, 2007	383	2,410	813	3,499	7,105

<sup>\*</sup> Trademark "El Rincon Espanol" was reclassified retrospectively from "Franchise right" to "Trademarks". This reclassification did not have an impact on the amount of depreciation expense for all periods presented.

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# 7. PROPERTY AND EQUIPMENT

The movement in property and equipment for the year ended December 31, 2006 was as follows:

	Buildings and Leasehold improvements
Cost	
At December 31, 2005 as previously reported	40,601
Reclassifications	3,763
At December 31, 2005 as reclassified	44,364
Additions	2,054
Assets put into use	10,765
Disposals	(2,599)
Translation difference	3,986
At December 31, 2006	58,570
ACCUMULATED DEPRECIATION	
At December 31, 2005 as previously reported	(16,511)
Reclassifications	(1,081)
At December 31, 2005 as reclassified	(17,592)
Charge for the year	(4,943)
Disposals	758
Translation difference	(1,029)
At December 31, 2006	(22,806)
NET BOOK VALUE	
AT DECEMBER 31, 2005 AS PREVIOUSLY REPORTED	24,090
Reclassifications	2,682
At December 31, 2005 as reclassified	26,772
At December 31, 2006	35,764

The movement in property and equipment for the year ended December 31, 2007 was as follows:

	Buildings and Leasehold improvements
Cost	
At December 31, 2006	58,570
Additions	2,016
Assets put into use	9,986
Disposals	(6,436)
Translation difference	4,596
At December 31, 2007	68,732
ACCUMULATED DEPRECIATION	
At December 31, 2006	(22,806)
Charge for the year	(5,539)
Disposals	5,110
Translation difference	(1,452)
At December 31, 2007	(24,687)
NET BOOK VALUE	
AT DECEMBER 31, 2006	35,764
At December 31, 2007	44,045

# OJSC ROSINTER RESTAURANTS HOLDING

(5,663)

15,170

17,299

(3,531)

3,128

3,033

Notes to the consolidated financial statements (continued)  $\,$ 

Total	Assets under construction	Vehicles	Office furniture and fixtures	Computer equipment and electronics	Restaurant equipment
78,849	8,450	553	4,056	3,664	21,525
_	_	28	(275)	147	(3,663)
78,849	8,450	581	3,781	3,811	17,862
18,751	15,884	27	95	193	498
_	(17,643)	139	937	1,823	3,979
(7,879)	(2,060)	(130)	(416)	(378)	(2,296)
5,965	445	55	255	327	897
95,686	5,076	672	4,652	5,776	20,940
(25,833)	_	(238)	(1,105)	(1,884)	(6,095)
_	-	(5)	(28)	(33)	1,147
(25,833)	-	(243)	(1,133)	(1,917)	(4,948)
(7,709)	_	(53)	(422)	(845)	(1,446)
2,047	_	52	152	237	848
(1,452)	_	(3)	(73)	(123)	(224)
(32,947)		(247)	(1,476)	(2,648)	(5,770)
53,016	8,450	315	2,951	1,780	15,430
-	_	23	(303)	114	(2,516)
53,016	8,450	338	2,648	1,894	12,914
62,739	5,076	425	3,176	3,128	15,170
Total	Assets under construction	Vehicles	Office furniture and fixtures	Computer equipment and electronics	Restaurant equipment
					- 1
95.686	5.076	672	4.652	5,776	20.940
95,686 27.671	5,076 23,170	672 43	4,652 358	5,776 157	20,940
95,686 27,671 –	23,170	43	358	157	1,927
27,671 -	23,170 (15,270)	43 396	358 979	157 828	1,927 3,081
	23,170	43	358	157	1,927
27,671 - (14,178)	23,170 (15,270) (2,015)	43 396 (78)	358 979 (792)	157 828 (675)	1,927 3,081 (4,182)
27,671 - (14,178) 7,124 116,303	23,170 (15,270) (2,015) 464	43 396 (78) 60 1,093	358 979 (792) 330 5,527	157 828 (675) 478 6,564	1,927 3,081 (4,182) 1,196 22,962
27,671 - (14,178) 7,124 116,303	23,170 (15,270) (2,015) 464	43 396 (78) 60 1,093	358 979 (792) 330 5,527	157 828 (675) 478 6,564	1,927 3,081 (4,182) 1,196 22,962 (5,770)
27,671 - (14,178) 7,124 116,303	23,170 (15,270) (2,015) 464	43 396 (78) 60 1,093	358 979 (792) 330 5,527	157 828 (675) 478 6,564	1,927 3,081 (4,182) 1,196 22,962

/<sub>115</sub>

(35,930)

62,739

80,373

5,076

11,425

/////// annual report 2007/

(283)

425

810

(1,766)

3,176

3,761

Notes to the consolidated financial statements (continued)

# 7. PROPERTY AND EQUIPMENT (CONTINUED)

As of December 31, 2007 and 2006, certain items of property and equipment with a carrying value of \$5,988 and \$14,137, respectively, were pledged to banks as collateral against loans to the Group.

In 2006, the Group purchased computer equipment on finance lease terms. In 2007, the Group entered into a number of finance lease contracts for motor vehicles. The carrying value of the leased assets as of December 31, 2007 and 2006 amounted to \$1,020 and \$940, respectively.

Certain items from restaurant equipment were reclassified into other groups of property and equipment which better represent the nature of these items. Further, the Group combined leasehold improvements and buildings. Such classification changes had no effect on previously reported net income of prior periods.

### 8. Inventories

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Inventories consisted of the following as of December 31:

	2007	2006
Foods, beverages, liquors and tobacco, at cost	4,377	3,276
Utensils, paper goods and other items, at cost	3,364	2,286
_	7,741	5,562
Allowance for slow-moving and damaged items	(1,509)	(1,217)
Total inventories, net	6,232	4,345

#### 9. ADVANCES PAID

Advances paid consisted of the following as of December 31:

	2007	2006
Advances to suppliers Advances to employees	5,853 827	6,536 291
	6,680	6,827
Allowance for doubtful accounts	(1,314)	(1,429)
TOTAL PREPAYMENTS, NET	5,366	5,398

As at December 31, 2007 and 2006, advances to suppliers at nominal value of \$1,314 and \$1,429, respectively, were impaired and fully provided for. Movements in the allowance for impairment of advances paid were as follows:

	2007	2006
At January 1	1,429	1,288
Charge for the year	718	2
Amounts written off	(603)	-
Unused amounts reversed	(348)	_
Translation difference	118	139
At December 31	1,314	1,429

#### OJSC ROSINTER RESTAURANTS HOLDING

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. TRADE AND OTHER RECEIVABLES

Receivables consisted of the following as of December 31:

	2007	2006
Trade receivables	2,176	1,292
Other receivables	1,038	679
	3,214	1,971
Allowance for doubtful accounts	(226)	(727)
TOTAL RECEIVABLES, NET	2,988	1,244

Trade and other receivables are non-interest bearing and are generally on 10-30 days terms.

As at December 31, 2007 and 2006, trade and other receivables at nominal value of \$226 and \$727, respectively, were impaired and fully provided for. Movements in the provision for impairment of trade and other receivables were as follows:

	2007	2006
At January 1	727	287
Charge for the year	231	408
Amounts written off	(87)	_
Unused amounts reversed	(676)	_
Translation difference	31	32
AT DECEMBER 31	226	727

As at December 31, the aging analysis of trade and other receivables is presented below:

	Total	Neither past	Past due but not impaired		
		due nor impaired	<3 months	3-6 months	>6 months
Trade receivables	2,084	1,173	791	108	12
Other receivables	904	710	88	68	38
2007	2,988	1,883	879	176	50
Trade receivables	819	382	393	39	5
Other receivables	425	400	11	9	5
2006	1,244	782	404	48	10

# 11. CASH AND CASH EQUIVALENTS

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

	2007	2006
Cash in hand	3,746	2,754
Cash in transit	3,362	2,642
Cash at bank	418	620
Short-term deposits	511	207
TOTAL CASH AND CASH EQUIVALENTS	8,037	6,223

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Notes to the consolidated financial statements (continued)

#### 12. SHARE CAPITAL

# Share Capital and Share Premium

The Company was established as the result of a reorganization of entities under control of the Parent company, RIG Restaurants Limited. The Company was established as an open joint stock company in accordance with the legislation of the Russian Federation on May 24, 2004. At that time, the Company issued 10,000,000 common shares with a par value of 247 Russian roubles per share (8.52 US\$ per share at the exchange rate as of May 24, 2004).

In December 2006, the Company reduced the par value of its shares to 169.7 Russian roubles per share, which resulted in a decrease in share capital of \$26,669. This decrease of share capital was recorded as a reduction in accumulated losses. There were no other transactions with own shares during 2006.

On June 1, 2007, the Company issued and sold 2,030,457 new shares with a nominal value of 169.7 Russian roubles per share (\$6.55 at the transaction date exchange rate) to the Parent at the price of \$29.55 for the total amount of \$60,000 (refer to Note 1). The excess of cash consideration over nominal value of shares issued was recognised as share premium. On December 27, 2007, the Group bought back 146,970 shares from the Parent at a price of \$58.57 for the amount of \$8,608. These shares were accounted for as treasury shares. The authorized and issued share capital of the Company as of December 31, 2007 and 2006 comprised 12,030,457 and 10,000,000 shares, respectively. All issued shares were fully paid.

As of December 31, 2007 and 2006, the outstanding share capital comprised of 11,883,487 and 10,000,000 shares, respectively.

### Additional Paid-in Capital

During 2007 and 2006, RIG Restaurants Limited, the Parent company, made cash contributions to the Company, which were recorded in the total amount of \$363 and \$4,385, respectively, as increases in additional paid-in capital.

# Distribution to Parent

In accordance with an agreement dated May 25, 2004 between the Company and the Parent – RIG Restaurants Limited, the Company has provided financing to its Parent in the amount of \$6,510 in 2006. The loans were subsequently forgiven, which represents a distribution to the shareholder.

# Earnings per Share

Earnings per share were calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	2007	2006
Net profit attributable to equity holders of the Parent	5,966	779
Weighted average number of ordinary shares outstanding	11,187,641	10,000,000
Profit per share attributable to equity holders		
of the Parent, basic and diluted (US\$)	0.53	0.08

The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

#### **OISC ROSINTER RESTAURANTS HOLDING**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. LIABILITIES TO PARTNERS

The movements in liabilities to partners were as follows during the years ended December 31:

	2007	2006
At January 1	17,755	11,495
Increase in amounts due to partners (Note 25)	5,490	4,743
Payments to partners	(15,041)	(6,739)
Capital contributed by partners in cash	4,570	7,069
Capital contributed by partners in property and equipment	839	_
Liabilities to partners in Baltic subsidiaries disposed of during		
the year (Notes 14, 24)	(225)	_
Translation difference	690	1,187
At December 31	14,078	17,755
Analysed as to:		
	2007	2006
Current portion	14,078	3,158
Long-term portion	_	14,597
TOTAL LIABILITIES TO PARTNERS	14,078	17,755

### 14. RELATED PARTIES DISCLOSURES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Short-term loans receivable from/payable to related parties consisted of the following as of December 31:

Related Parties	Nature of relationship	Short-term loans receivable from related parties		Short-term loans payable to related parties	
		2007	2006	2007	2006
	Entity under	• •			
Hodler Finance S.A. (1)	common	9,166	_	_	-
	control (EUCC	<b>C</b> )			
OJSC Birulevo (2)	EUCC	3,076	_	_	_
National QSR Network LLC (3)	EUCC	3,056	_	_	13
Rostik Investment Group Inc. (4)	EUCC	2,801	_	_	690
Amazonit LLC (5)	EUCC	_	891	_	_
Other EUCC (6)		473	944	233	1,395
Total short-term loans receivable	_				
from /payable to related parti	es	18,572	1,835	233	2,098

<sup>(1)</sup> On December 10, 2007, the Group issued a rouble-denominated unsecured loan to Hodler Finance S.A. for \$9,166 (at the exchange rate as of December 31, 2007), bearing interest of 12% per annum and maturing on June 10, 2008.







Notes to the consolidated financial statements (continued)

# 14. RELATED PARTIES DISCLOSURES (CONTINUED)

- (2) On October 10, 2007, the Group issued a rouble-denominated unsecured loan to OJSC Birulevo for \$3,076 (at the exchange rate as of December 31, 2007), bearing interest of 12% per annum. The loan was fully repaid by the Group on January 17, 2008.
- (3) On October 3, 2007 and November 2, 2007, the Group issued two rouble-denominated unsecured loans to National QSR Network LLC for \$1,528 each (at the exchange rate as of December 31, 2007), bearing interest of 11% per annum and maturing on March 31, 2008. From January 1, 2008, the interest rate was increased to 14%.
- (4) On December 24, 2007, the Group provided Rostik Investment Group Inc. with an unsecured rouble denominated loan in the total amount of \$2,801 (at the exchange rate as of December 31, 2007), bearing interest of 14% per annum and maturing on December 25, 2008.
- In January 1999, Rostik Investment Group Inc. provided one of the Group companies with a loan for \$690, bearing interest of 11% per annum and due in December 2006. In 2006, the loan agreement was renewed with the same interest rate and due date of July 1, 2007. During the year ended December 31, 2007, the loan was fully repaid.
- (5) In December 2006, the Group provided Amazonit LLC with an interest free loan of \$891 due in March 2007. The loan was repaid in March 2007.
- (6) The interest rate for the loans given to/received from the other EUCC varies from 11% to 14% per annum.
- (7) In May 2007, the Group provided a US dollar-denominated loan to Mr. Rostislav Ordovsky-Tanaevsky Blanco amounted to \$4,300 bearing 9% interest per annum and maturing in July 2007. In July 2007, the loan was fully repaid to the Group.
- (8) In June 2007 the Group issued three US dollar-denominated unsecured loans to B & V Holding Company N.V., an entity controlled by key management personnel, for \$3,311, bearing interest of 13% per annum and maturing on July 5, 2007. In July 2007, the loans were fully repaid to the Group.

Long-term loans receivable from/payable to related parties consisted of the following as of December 31:

Related Parties	Long-term loans receivable from related parties		Long-term loans payable to related parties	
	2007	2006	2007	2006
Other EUCC (6)	368	240	1,046	1,150
TOTAL LONG-TERM LOANS RECEIVABLE FROM / PAYABLE TO RELATED PARTIES	368	240	1,046	1,150

**OISC ROSINTER RESTAURANTS HOLDING** 

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

# 14. RELATED PARTIES DISCLOSURES (CONTINUED)

Accounts receivable from / payable to related parties consisted of the following as of December 31:

Related Parties	Nature of relationship	Receivables from related parties		Payables to related parties	
		2007	2006	2007	2006
Rostik Investment Group Inc. (9) RIG Restaurant Limited (Cyprus)	EUCC Parent	3,195	-	106	455
(10)	company	1,273	295	669	2,189
National QSR Network LLC (11) Russian Caramel Restaurants	EUCC	497	187	_	23
LLC (12)	EUCC	158	21	_	4
Loyalty Partners Vostok LLC (13)	Other related party	-	53	1,048	609
Other EUCC	_	1,660	1,157	1004	1,896
TOTAL RECEIVABLE FROM / PAYAB	ELE				
TO RELATED PARTIES		6,783	1,713	2,827	5,176

(9) In 2007, the Group sold its interest in Baltic subsidiaries to Rostik Investment Group Inc. for cash consideration of \$1,621. The outstanding receivable balance is repayable during 2008.

The outstanding receivable balance in the amount of \$1,574 represents management and financial advisory services paid by the Group on behalf of Rostik Investment Group in accordance with a consultancy agreement.

The outstanding payable balance as of December 31, 2007 and 2006, in the amount of \$106 and \$455, respectively, comprises rent payable and interest payable.

(10) The outstanding receivable balance at December 31, 2007 results from operating expenses and IPO expenses paid by the Group on behalf of RIG Restaurants Limited. The outstanding receivable balance at December 31, 2006 results from operating expenses paid by the Group on behalf of RIG Restaurants Limited and from management services provided to RIG Restaurants Limited.

The outstanding payable balance at December 31, 2007 and December 31, 2006 relates to purchase of interest in Rosinter Ukraine LLC and management services provided to the Group.

- (11) The outstanding receivable balance represents management and consulting services provided by the Group to National QSR Network LLC.
- (12) The outstanding receivable balance represents management and consulting services provided by the Group to Russian Caramel Restaurants LLC.
- (13) The outstanding payable balance to Loyalty Partners Vostok LLC represents services related to the "Malina" customer loyalty program provided to the Group. The ultimate controlling shareholder holds director position in Loyalty Partners Vostok LLC.

As at December 31, 2007 and 2006, receivables from relates parties at nominal value of \$43 and nil, respectively, were impaired and fully provided for.





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

# 14. RELATED PARTIES DISCLOSURES (CONTINUED)

As at December 31, the aging analysis of receivables from related parties is presented below:

	Total	Neither Total past dued –		Past due but not impaired		
	Totat	nor impaired	<3 months	3-6 months	>6 months	
2007	6,783	5,721	1,012	-	50	
2006	1,713	1,713	-	-	_	

Transactions with related parties were as follows for the year ended December 31, 2006:

Related Parties	Nature of relationship	Revenue and other gains	Purchases	Interest income income	Interest expense
		2006	2006	2006	2006
Amazonit LLC (14)	EUCC	-	2,831	82	-
RosCorp LLC (15)	EUCC	_	3,453	_	_
PBO Service LLC (16)	EUCC	496	1,380	_	_
Other EUCC		1,311	3,259	537	230
Total		1,807	10,923	619	230

Transactions with related parties were as follows for the year ended December 31, 2007:

Related Parties	Nature of relationship	Revenue and other gains	Purchases	Interest income income	Interest expense
		2007	2007	2007	2007
RIG Restaurant Limited	Parent	_	_	283	_
	company				
National QSR Network LLC (17)	EUCC	1,988	62	57	-
Omsk QSR Network LLC (18)	EUCC	2,409	27	· –	-
Russian Caramel Restaurants					
LLC (19)	EUCC	645	_		-
RosCorp LLC (15)	EUCC	20	3,853	-	-
Loyalty Partners Vostok	Other related	d			
LLC (13, 20)	party	_	1,417	· –	-
Rostik Aero LLC (21)	EUCC	_	987	· –	_
Other EUCC		1,386	2,278	359	227
Total		6,448	8,624	699	227

- (14) During 2006, the Group received information, management and outsourcing services in the amount of \$2,831.
- (15) During 2007 and 2006, the Group purchased rent, transport and utilities services in the amount of \$3,853 and \$3,453, respectively.
- (16) In 2006, the Group purchased several types of goods and services, including property and equipment.
- (17) During 2007, the Group rendered management, consulting and accounting services in the amount of \$1,937.
- (18) During 2007, the Group rendered management, consulting and accounting services and sold semi-finished product.

#### **OISC ROSINTER RESTAURANTS HOLDING**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. RELATED PARTIES DISCLOSURES (CONTINUED)

- (19) During 2007, the Group rendered management, consulting and accounting services in the amount of \$580.
- (20) During 2007, the Group received services related to participation in the "Malina" customer loyalty programme.
- (21) During 2007, Rostik Aero LLC provided the Group with premises for fees of \$987.

On December 27, 2007 the Group reacquired 146,970 own shares from the Parent company for the amount of \$8,608 (see Note 12).

Compensation to Key Management Personnel

Key management personnel totalled 15 and 13 persons as at December 31, 2007 and 2006, respectively. Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	2007	2006
Salary	2,119	1,913
Performance bonuses	1,878	229
	3,997	2,142

The Group's contributions relating to social taxes for key management personnel amounted to \$125 and \$98 during the years ended December 31, 2007 and 2006, respectively.

### 15. LONG-TERM DEBT

Long-term debt, at amortized cost, consisted of the following as of December 31:

	2007	2006
Bonds issued, net of issuance cost	45,680	32,266
Saving Bank of the Russian Federation (Sberbank)	4,074	3,798
Ukreximbank	1,228	1,205
Kazkommertsbank	_	1,083
Other long-term debts	977	401
	51,959	38,753
Less: current portion	(51,681)	(69)
Total long-term debt	278	38,684

# Bonds

In July 2003, Rosinter Restaurants LLC, a Group company, registered with the Federal Securities Market Commission in Russia the issue of 400,000 non-convertible bonds with a face value of 1,000 Russian roubles each in an aggregated principal amount of 400 million Russian roubles. On July 7, 2004, the Group issued 330,371 of those bonds in an aggregated principal amount of 330 million Russian roubles. The bonds have 16 coupons payable quarterly. Interest rates for each coupon vary from 10% to 12% per annum. The outstanding balance at December 31, 2007 and 2006 is 144,243 bonds in the amount of \$5,878 (at the exchange rate at December 31, 2007) and 144,231 bonds in the amount of \$5,477 (at the exchange rate at December 31, 2006), respectively. The bonds are due in July 2008.

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Notes to the consolidated financial statements (continued)

# 15. LONG-TERM DEBT (CONTINUED)

# Bonds (continued)

In December 2005, Rosinter Restaurants LLC, a Group company, issued an additional 1,000,000 non-convertible bonds with a face value of 1,000 Russian roubles each in an aggregated principal amount of 1,000 million Russian roubles. The bonds have 10 coupons payable semi-annually with variable interest rates declared by the Group. The interest rate for the two coupon periods in 2006 was 11%. The interest rate for the third coupon periods ending May 2008 is 10.75%. During 2006, bondholders exercised their early redemption option, which resulted in a decrease in bonds of \$10,600. The outstanding balance at December 31, 2007 and 2006 represented 981,142 bonds in the amount of \$39,971 (at the exchange rate at December 31, 2007) and 711,495 bonds in the amount of \$27,021 (at the exchange rate at December 31, 2006). The bonds will mature on November 26, 2010. The bondholders have an early redemption option exercisable in May 2008.

#### Sberbank

In September 2006, the Group obtained a loan in the amount of 100 million Russian roubles bearing interest of 9.2% per annum and maturing in March 2008. The loan is secured by a pledge of restaurant equipment with a net book value of \$1,362. The loan was fully repaid on March 17, 2008.

#### UKREXIMBANK

During 2005, the Group obtained an unsecured credit facility in the amount of \$1,388 bearing interest of 12% per annum and maturing in July 2008. The credit facility is secured by a pledge of restaurant equipment with a carrying value of \$689. The unutilized balance of the credit facility amounted to \$160 and \$183 at December 31, 2007 and 2006, respectively.

#### KAZKOMMERTSBANK

During 2006, the Group obtained credit facilities in the total amount of \$1,891 bearing interest of 12% per annum and maturing during 2010 and 2011. The credit facilities were secured by a pledge of restaurant equipment of Rosinter LLC Almaty, a subsidiary of the Group, with a carrying value of \$553 at December 31, 2006. The unutilized balance of the credit facility amounted \$808 at December 31, 2006. During the year ended December 31, 2007, the Group fully repaid the debt.

# 16. FINANCE LEASE LIABILITIES

During 2007 and 2006, the Group entered into a number of finance lease agreements for motor vehicles and computer equipment. The leased assets under these agreements are included in property and equipment in the consolidated balance sheets in the amount of \$1,020 and \$940 as of December 31, 2007 and 2006, respectively. Depreciation of property and equipment under the finance lease contracts for 2007 and 2006 amounted to \$248 and \$43, respectively. Finance charges for the year ended December 31, 2007 and 2006 amounted to \$183 and \$5, respectively, and are included in interest expense in the consolidated statement of income.

#### **OISC ROSINTER RESTAURANTS HOLDING**

Notes to the consolidated financial statements (continued)

### 16. FINANCE LEASE LIABILITIES (CONTINUED)

Future minimum lease payments together with the present value of the net minimum lease payments were as follows at December 31:

	2007		200	06
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	482	363	422	362
After one year but not more than five years	383	334	487	294
Total minimum lease payment	865	697	909	656
Less amounts representing finance charges	(168)	_	(253)	_
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	697	697	656	656

In the year ended December 31, 2007, the interest rate varied from 9.28% to 12.78%. In the year ended December 31, 2006, the interest rate was 9.28%.

## 17. INCOME TAX

The Group's provision for income tax for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Current tax Deferred tax	(4,682) 450	(2,372) 2,024
TOTAL INCOME TAX EXPENSE	(4,232)	(348)

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

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

December 31, 2005	Differences recognition and reversal	Translation difference	December 31, 2006
1,681	609	(14)	2,276
38	376	_	414
28	243	16	287
331	295	126	752
2,078	1,523	128	3,729
(1,817)	416	(14)	(1,415)
(19)	(112)	(2)	(133)
(715)	197	25	(493)
(2,551)	501	9	(2,041)
(473)	2,024	137	1,688
	1,681 38 28 331 2,078  (1,817) (19) (715) (2,551)	2005     recognition and reversal       1,681     609       38     376       28     243       331     295       2,078     1,523       (1,817)     416       (19)     (112)       (715)     197       (2,551)     501	2005     recognition and reversal     difference       1,681     609     (14)       38     376     -       28     243     16       331     295     126       2,078     1,523     128       (1,817)     416     (14)       (19)     (112)     (2)       (715)     197     25       (2,551)     501     9

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Notes to the consolidated financial statements (continued)

# 17. INCOME TAX (CONTINUED)

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31, 2007:

	December 31, 2006	Differences recognition and reversal	Deferred tax of disposed entities	Translation difference	December 31, 2007
TAX EFFECT OF DEDUCTIBLE					
TEMPORARY DIFFERENCES					
Trade and other payables	2,276	339	_	165	2,780
Allowance for impairment					
of receivables and inventory	414	(54)	(15)	53	398
Carryforward of unused tax losses	287	233	_	(9)	511
Other	752	(540)	(33)	26	205
TOTAL DEFERRED TAX ASSET:	3,729	(22)	(48)	235	3,894
TAX EFFECT OF TAXABLE TEMPORARY DIFFERENCES					
Property and equipment	(1,415)	239	_	(90)	(1,266)
Trade and other receivables	(133)	(253)	_	65	(321)
Other	(493)	486	_	2	` (5)
TOTAL DEFERRED TAX (LIABILITY):	(2,041)	472	-	(23)	(1,592)
NET DEFERRED TAX ASSET					
/ (LIABILITY)	1,688	450	(48)	212	2,302

The recognition and reversals of temporary differences, as presented in the table above, primarily relate to the depreciation of property and equipment in excess of the depreciation for tax purposes, accrued liabilities, and provisions to write inventory down to net realizable value.

As of December 31, 2005 and 2006, the Group netted off deferred tax assets and deferred tax liabilities relating to Rosinter Restaurants LLC where it had a legally enforceable right to set off. This change has no effect on previously reported net income.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised aggregate to \$3,168 and \$11,477 as of December 31, 2007 and 2006, respectively. The Group had no intention to declare dividends on accumulated profits as of December 31, 2006 and therefore did not recognize any related deferred tax liability as of that date. On November 22, 2007 the Group adopted a new dividend policy whereby accumulated profits of subsidiaries which are not required for reinvestment into business would be distributed to the Parent.

As of December 31, 2007, the Company's subsidiary Rosinter Restaurants Novosibirsk LLC had accumulated tax losses in the amount of \$2,129, for which a deferred tax asset of \$511 was recognised. Management expects that these tax losses will be used against future taxable income. This deferred tax asset may be utilised within 9-10 years.

#### OJSC ROSINTER RESTAURANTS HOLDING

Notes to the consolidated financial statements (continued)

### 17. INCOME TAX (CONTINUED)

The statutory tax rate effective in the Russian Federation, the location of the majority of the Group's entities, was 24% in 2007 and 2006. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual (expense)/benefit recorded in the Group's income statement:

	2007	2006
Profit before income tax	10,198	1,127
At Russian statutory income tax rate of 24%	(2,448)	(270)
Tax on dividend income related to dividend declared by subsidiaries	(1,507)	(92)
Income subject to unified tax on imputed income	1,081	591
Effect of differences in tax rates in countries other than		
the Russian Federation	1,858	1,036
Effect of non-deductible expenses and other non-temporary differences	(3,216)	(1,613)
INCOME TAX EXPENSE REPORTED IN THE CONSOLIDATED		
INCOME STATEMENT	(4,232)	(348)

# 18. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following as of December 31:

	2007	2006
Trade creditors	12,337	7,821
Accrued salaries	9,491	5,216
Output VAT and other taxes payable	3,238	4,276
Interest payable to banks	2,444	294
Advances received	382	1,472
Other liabilities	5,624	4,075
TOTAL TRADE AND OTHER PAYABLES	33,516	23,154

#### 19. SHORT-TERM DEBT

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

	2007	2006
Sberbank	3,777	6,076
Bank Societe General Vostok (BSGV)	_	5,000
Alfa Bank	_	3,418
UralSib	_	8,000
UniCredit Bank (former International Moscow Bank)	1,507	4,800
Amsterdam TB	_	4,000
Other	_	411
	5,284	31,705
Current portion of long-term loans (Note 15)	51,681	69
Total short-term debt	56,965	31,774

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Notes to the consolidated financial statements (continued)

# 19. SHORT-TERM DEBT (CONTINUED)

#### SBERBANK

In December 2005, the Group entered into a revolving credit facility agreement in the total amount of 155 million Russian roubles, bearing interest of 12% per annum and maturing in December 2006. In July 2006, the Group renewed the revolving credit facility agreement for the total amount of 190 million Russian roubles (\$7,215 at the exchange rate as of December 31, 2006) bearing interest of 9.5% per annum and maturing in tranches during January to April 2007. The credit facility was secured by a pledge of restaurant and office equipment and furniture with a carrying value of \$3,212. The unutilized balance of the credit facility amounted to \$1,139 at December 31, 2006. In December 2007, the Group renewed the revolving credit facility agreement for the amount of 190 million Russian roubles (\$7,741 at the exchange rate as of December 31, 2007) bearing interest of 9.0% per annum and maturing in January 2008. To secure the debt, the Group pledged its restaurant and office equipment and furniture with a carrying value of \$1,839. The unutilized balance of the credit facility amounted to \$3,964 at December 31, 2007. The credit facility was fully repaid on January 10, 2008.

#### **BSGV**

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In November 2006, the Group entered into a revolving credit facility agreement in the amount of \$5,000 bearing interest of LIBOR plus 5% per annum and maturing in March 2007 with an implicit extension to November 2007. During the year ended December 31, 2007, the Group fully repaid the debt.

### Alfa Bank

In December 2006, the Group entered into a restricted non-revolving credit facility agreement, amounting to 300 million Russian roubles (\$11,393 at the exchange rate as of December 31, 2006) for repayment of bonds relating to the early put option, bearing interest of 11.5% per annum and maturing in June 2007. This credit facility was secured by a guarantee of RIG Restaurants Limited, the Parent. During the year ended December 31, 2007, the Group fully repaid the debt.

# UralSib

In December 2006, the Group entered into a credit facility agreement amounting to \$8,000 bearing interest of 10% per annum and maturing in December 2007. The loan was secured by a pledge of restaurant equipment with a carrying value of \$4,815. The unutilized balance of the credit facility amounted to nil as of December 31, 2006. In July 2007 the debt was repaid.

### UNICREDIT BANK (INTERNATIONAL MOSCOW BANK)

In May 2004, the Group obtained a loan in the amount of \$4,800 bearing interest of LIBOR plus 7% per annum and maturing on May 12, 2007. In 2006, this loan was reclassified to short-term loans. The loan agreement contained covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity. The debt was repaid in May 2007.

In May 2007, the Group obtained a credit facility in the amount of 130 million Russian roubles (\$5,296 at the exchange rate as of December 31, 2007) bearing interest from 9.5% to 12% per annum and maturing in November 2008. The loan is secured by a pledge of restaurant equipment with a net book value of \$2,098. The unutilized balance of the credit facility amounted to \$3,789 as of December 31, 2007.

#### **OISC ROSINTER RESTAURANTS HOLDING**

Notes to the consolidated financial statements (continued)

# 19. SHORT-TERM DEBT (CONTINUED)

#### Amsterdam TB

In August 2006, the Group entered into a credit facility agreement amounting to \$4,000 bearing interest of LIBOR plus 3.7% per annum and maturing in August 2009. The loan was guaranteed by RIG Restaurants Limited, the Parent company. The loan agreement contained covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity. The unutilized balance of the credit facility amounted to \$4,000 as of December 31, 2007.

# Promsvyazbank

In June 2007, the Group entered into a credit facility agreement amounting to 50 million Russian roubles (\$2,037 at the exchange rate as of December 31, 2007) bearing interest of 11% per annum and maturing in June 2008. The unutilized balance of the credit facility amounted to \$2,037 as of December 31, 2007.

#### 20. REVENUE

Revenue for the years ended December 31, 2007 and 2006 consisted of the following

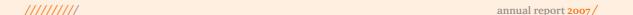
	2007	2006
Revenue from restaurants	240,318	202,330
Revenue from corporate cafes	6,547	2,647
Franchise revenue	5,871	2,913
Sales of semi-finished products to franchisees	4,764	3,111
Sublease services and other services	4,083	3,686
Other services	6,633	3,939
TOTAL REVENUE	268,216	218,626

#### 21. COST OF SALES

The following expenses were included in cost of sales for the years ended December 31:

	2007	2006
Food and beverages	72,559	58,593
Payroll and related taxes	52,435	39,074
Rent (Note 23)	29,066	23,992
Customer loyalty programmes	2,374	5,659
Restaurant equipment depreciation	7,009	6,222
Utilities	6,565	4,361
TOTAL COST OF SALES	170,008	137,901





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following expenses were included in selling, general and administrative expenses for the years ended December 31:

	2007	2006
Payroll and related taxes	24,137	14,546
Advertising	9,031	6,060
Materials	5,258	4,608
Start-up expenses for new restaurants	5,117	5,744
Rent (Note 23)	5,092	5,009
Maintenance and repair services	4,095	2,823
Other services	3,345	3,298
Laundry and sanitary control	3,262	781
Depreciation and amortization	2,188	1,931
Transportation services	1,858	1,449
Franchising fee	1,700	708
Financial and legal services	1,637	4,883
Bank services	1,650	1,202
Utilities	826	1,229
Allowance for impairment of advances paid, taxes recoverable		
and receivables	(110)	3,574
Other expenses	4,740	4,889
TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	73,826	62,734

# 23. RENT EXPENSES

The following rent expenses were included in cost of sales and selling, general and administrative expenses for the years ended December 31:

	2007	2006
Rent premises minimum lease payment	32,525	27,936
Rent premises contingent lease payment	1,633	1,065
TOTAL RENT EXPENSES	34,158	29,001

# 24. OTHER (GAINS)/LOSSES

	2007	2006
Gain on disposal of subsidiaries	(988)	_
Other gains	(2,945)	(1,743)
Total other gains	(3,933)	(1,743)
Loss on disposal of non-current assets	1,660	2,371
Other losses	4,666	5,461
Total other losses	6,326	7,832

Gain on disposal of subsidiaries related to the disposal of the Group's interest in SIA Rosinter Restaurants, including its subsidiaries, SIA Food Service and OU Rosinter Restaurants to Rostik Investment Group Inc., a related party (refer to Note 14). The net assets of these disposed subsidiaries were \$633 at the date of disposal comprising primarily property and equipment, trade and other payables and debts.

#### **OISC ROSINTER RESTAURANTS HOLDING**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

# 24. OTHER (GAINS)/LOSSES (CONTINUED)

Other gains primarily related to insurance coverage, accounts payable balances write off and other miscellaneous gains.

Other losses mainly resulted from the closure of certain restaurants and other oneoff expenses.

# 25. FINANCIAL (INCOME)/EXPENSES

The following (income)/expenses were included in financial (income)/expenses for the years ended December 31:

the years chaca becomber 51.		
	2007	2006
Interest income	(1,385)	(705)
TOTAL FINANCIAL INCOME	(1,385)	(705)
	2007	2006
Interest expense	6,748	7,409
Increase in amounts due to partners (Note 13)	5,490	4,743
Excess of cash paid over book value of liability to partners relating to ownership interest acquired in subsidiaries	1,667	-
TOTAL FINANCIAL EXPENSES	13,905	12,152

During the year ended December 31, 2007, the Group bought ownership interest in its Siberian subsidiaries from partners for \$1,667. The carrying value of liabilities to partners relating to this interest amounted to nil which represented the partners' share in net assets of subsidiaries at the date of acquisition.

# 26. COMMITMENTS AND CONTINGENCIES

#### LITIGATION

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

# RUSSIAN FEDERATION TAX AND REGULATORY ENVIRONMENT

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. Russian tax and currency legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, additional taxes, fines, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. However, the tax regime in Russia following the recent cases has become even less predictable.





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Notes to the consolidated financial statements (continued)

# 26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### RUSSIAN FEDERATION TAX AND REGULATORY ENVIRONMENT (CONTINUED)

The Group utilized certain tax planning strategies providing tax savings to the Group that reduced its costs of operations in 2006 (refer to Note 4 - Estimation Uncertainty). Management have substantially eliminated these tax planning strategies with effect from December 31, 2006. While management believes that its interpretation of the relevant legislation is appropriate, these tax planning strategies may be challenged by the Russian tax authorities. Thus, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of December 31, 2007. The amount of possible liabilities that could be incurred in the event that the tax authorities challenge the Group's position on certain tax matters and certain tax practices at December 31, 2007 could include the amount of the aforementioned tax savings, and fines, penalties and interest assessed, if any. As of December 31, 2007 and 2006, management believes that its interpretation of the relevant legislation is appropriate and that it is likely that the Group's tax position will be sustained.

# **OPERATING LEASE COMMITMENTS**

The Group has entered into a number of commercial lease agreements for its restaurants' premises. The nominal amount of minimum rental payables under the non-cancellable leases at December 31 was as follows:

TOTAL MINIMUM RENTAL PAYABLES:	150,364	125,006
More than five years	40,224	41,966
After one year but not more than five years	83,122	63,120
Within one year	27,018	19,920
	2007	2006

### JOINT VENTURE WITH COSTA LIMITED

In December 2007, the Group entered into a joint venture agreement with Costa Limited (Costa) which operates coffee houses in the United Kingdom and other countries. On or before May 15, 2008, the Group should contribute \$3,000 to the capital of the joint venture. Further, the Group should provide the joint venture with a \$2,000 interest bearing credit facility on or before October 15, 2008.

### 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments carried on the balance sheet comprise loans given, finance lease liabilities, trade and other payables, bank loans, bonds and liabilities to partners. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables and cash and short-term deposits, which arise directly from its operations.

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

# Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Trade and other receivables and payables are non-interest bearing financial assets and liabilities. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term credit facilities. The majority of interest rates on long-term credit facilities of the Group are fixed and these are disclosed in Note 15.

#### **OISC ROSINTER RESTAURANTS HOLDING**

Notes to the consolidated financial statements (continued)

# 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### INTEREST RATE RISK (CONTINUED)

The Group has no significant exposure to interest rate risk since the majority of its loans and bonds have a clearly defined stable interest rate, other than short-term credit facilities which expose the Group to the risk of refinancing at different interest rates (refer to Note 19). The Group does not hedge its interest rate risk.

#### CURRENCY RISK

The Group's exposure to currency risk primarily related to its US dollar denominated intercompany balances and external debts of its Russian subsidiaries.

The Group monitors the currency risk by following changes in exchange rates in currencies in which its intercompany balances and external debts are denominated. The Group does not have formal arrangements to mitigate its currency risk. However, management believes that the Group significantly mitigated its currency risk at December 31, 2007 as all its external US dollar denominated debts were repaid during 2007.

The table below shows the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax:

	Increase/(decrease) in US dollar rate	Effect on profit before tax
As at 31 December 2007		
US dollar/Russian ruble	7.0%	(53)
US dollar/Russian ruble	(7.0%)	53
As at 31 December 2006		
US dollar/Russian ruble	7.0%	(751)
US dollar/Russian ruble	(7.0%)	751

# CREDIT RISK

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to loans due from related parties and receivables. The carrying amount of loans due from related parties and receivables, net of allowance for impairment, represents the maximum amount exposed to credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

The Group deposits available cash with several Russian banks. Deposit insurance is not offered to banks operating in Russia. To manage the credit risk, the Group allocates its available cash to a variety of Russian banks and management periodically reviews the credit worthiness of the banks in which such deposits are held.

#### LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of financial assets and projected cash flows from operations.

The tables below summarise the maturity profile of the Group's financial liabilities at December 31, 2007 and 2006 based on contractual undiscounted payments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

# 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED) LIQUIDITY RISK (CONTINUED)

December 31, 2007	Less than 3 months	3-12 months	1 to 5 years	Total
Long-term and short-term debt	7,858	49,109	13,235	70,202
Long-term and short-term debt due to related				
parties	_	233	1,046	1,279
Trade and other payables and income tax				
payable	34,881	53	_	34,934
Payables to related parties	_	2,827	_	2,827
Liabilities to partners	_	14,078	_	14,078
Finance leases	129	353	383	865
Total	42,868	66,653	14,664	124,185

December 31, 2006	Less than 3 months	3-12 months	1 to 5 years	Total
Long-term and short-term debt	5,286	26,489	51,082	82,857
Long-term and short-term debt due to related				
parties	_	2,098	1,150	3,248
Trade and other payables and income tax				
payable	23,065	89	_	23,154
Payables to related parties	_	5,176	_	5,176
Liabilities to partners	_	3,158	14,597	17,755
Finance leases	116	306	487	909
TOTAL	28,467	37,316	67,316	133,099

# CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 50% and 80%. The Group includes within net debt loans and borrowings, trade and other payables, liabilities to partners, less cash and cash equivalents. Capital includes equity.

	2007	2006
Loans and borrowings, including loans to related parties	58,522	73,706
Trade and other payables, including payables to related parties	37,761	28,345
Liabilities to partners	14,078	17,755
Cash and cash equivalents	(8,037)	(6,223)
NET DEBT	400.004	440 =00
INET DEDI	102,324	113,583
CAPITAL	35,282	(23,848)

OJSC ROSINTER RESTAURANTS HOLDING

Notes to the consolidated financial statements (continued)

# 27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

# FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of cash and cash equivalents, receivables, trade and other payables and short-term debts approximate their carrying amounts due to their short maturity. Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2007	2006	2007	2006
FINANCIAL ASSETS				
Short-term loans due from related parties	18,572	1,835	18,572	1,835
Cash and cash equivalents	8,037	6,223	8,037	6,223
Long-term loans due from related parties	368	240	368	240
Short-term loans	410	151	410	151
FINANCIAL LIABILITIES				
Current portion of long-term debt	51,681	69	51,689	69
Long-term liabilities to partners	14,078	17,755	14,078	17,755
Short-term debt	5,284	31,705	5,284	31,705
Long-term debt due to related parties	1,046	1,150	1,046	1,150
Long-term debt	278	38,684	278	38,684
Finance lease liabilities	697	656	697	656
Short-term debt due to related parties	233	2,098	233	2,098

The fair value of the current portion of long-term debt which represents bonds has been determined using market price. The fair value of certain long-term debts has been determined by using the fair values of comparable debts, which are based on cash flows discounted using market interest rates. Other long-term debts bear market interest rate. The fair value of liabilities to partners has been calculated as the net present value of the estimated future payments to partners using an effective interest method.

#### 28. Subsequent Events

On February 11, 2008, the Group adopted an incentive plan under which 12 senior executives and 21 other employees (the "participants") were granted cash-settled share options. 120,600 options were allocated to the participants at the exercise price of \$58.5. Option grants vest over a number of months: 1/3rd-after initial period of 12 months from January 1, 2008, 1/3rd-after 24 months from January 1, 2008, 1/3rd-after 36 months from January 1, 2008. The maximum term of options granted is 4 years.

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