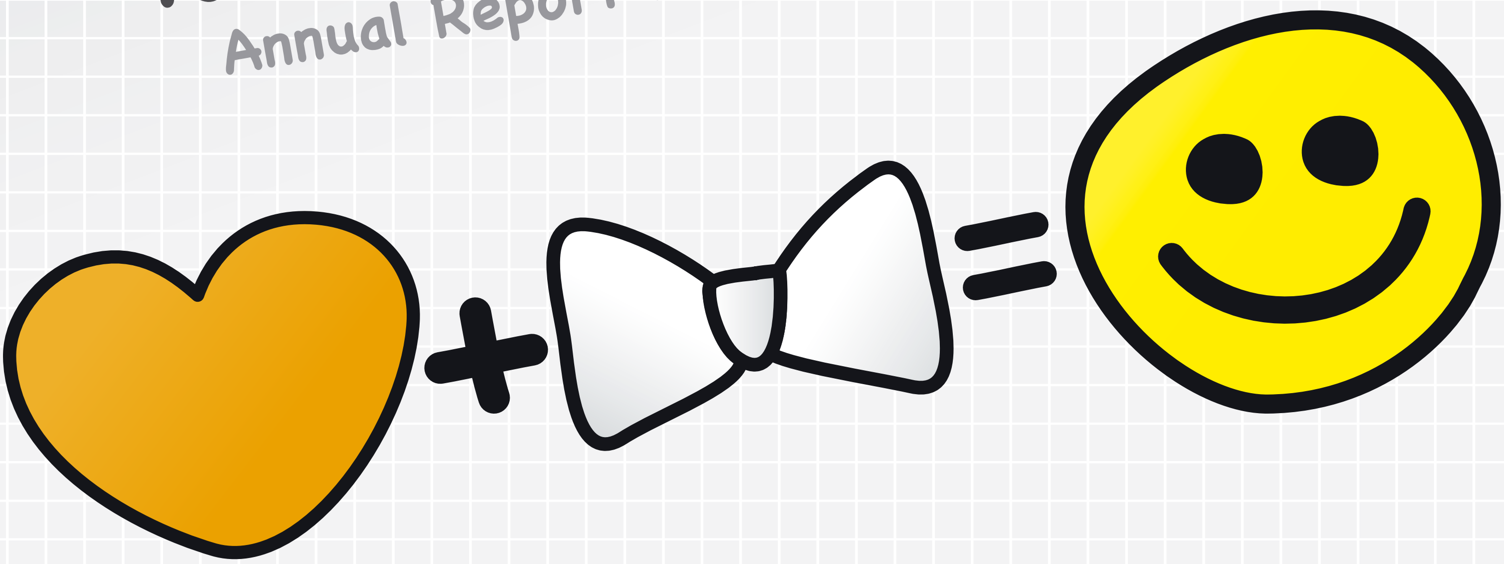
Rosinter's Formula for Guest Loyalty

Annual Report 2008

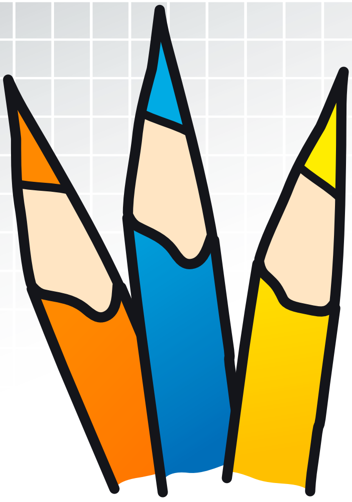


.Approved by.

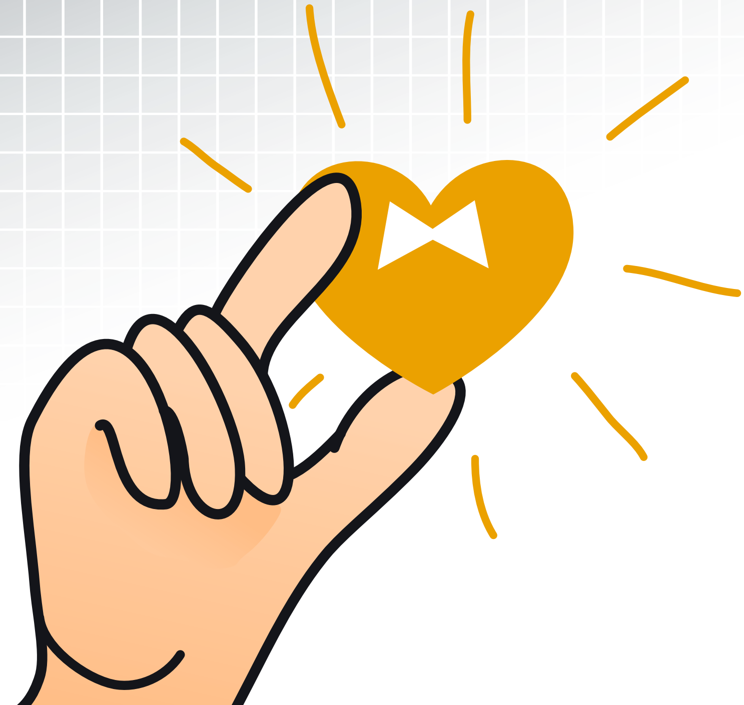
15 million

Guests

ROSINTER
RESTAURANTS



Contents



Rosinter in Brief

OJSC Rosinter Restaurants Holding is the leading casual dining restaurant company in Russia and the CIS. The company, which opened its first restaurant in Moscow in 1990, operates in high-growth markets drawing on its scalable business model and its well-established regional platform. As of 31 December 2008, it operated 337 outlets, including 74 franchised restaurants. In 2008, it served approximately 15 mln guests in 33 cities, in 9 countries (Russia, CIS, Central Europe, and the Baltics).

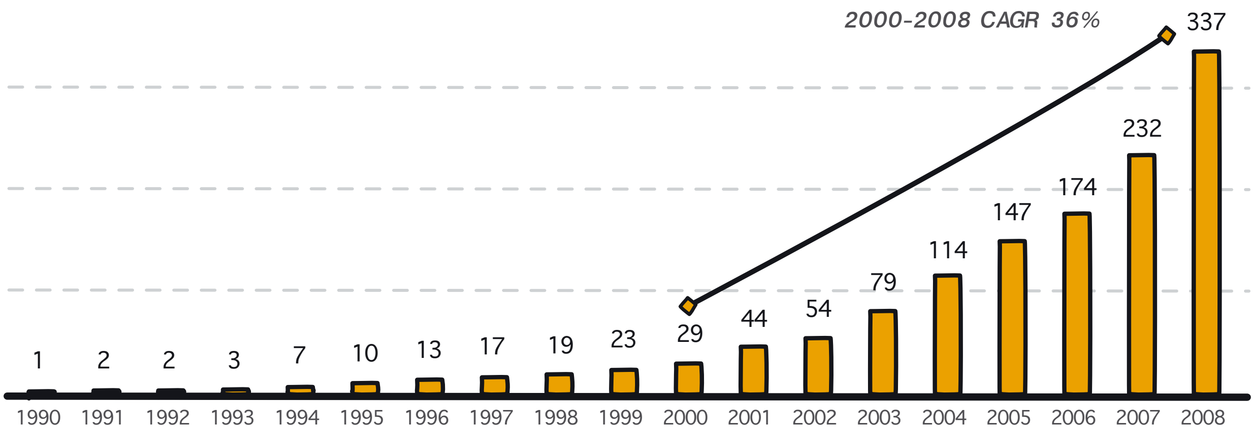
Rosinter offers Italian, Japanese, American and Russian cuisine under its proprietary brands IL Patio, Planet Sushi and 1-2-3 Café and its licensed brands T.G.I. Friday's® and Sibirskaya Corona. Also, through a Joint Venture with Whitbread Plc (LSE ticker WTB.L), the company is currently developing the Costa Coffee chain in Russia (12 outlets as of 31 December 2008).

Rosinter Restaurants Holding is listed in RTS (www.rts.com) and MICEX (www.micex.com) under the stock ticker ROST and it reported consolidated revenues of US$341.1 mln for the year ended 31 December 2008, in accordance with its audited IFRS accounts, a 28.7% increase over 2007.

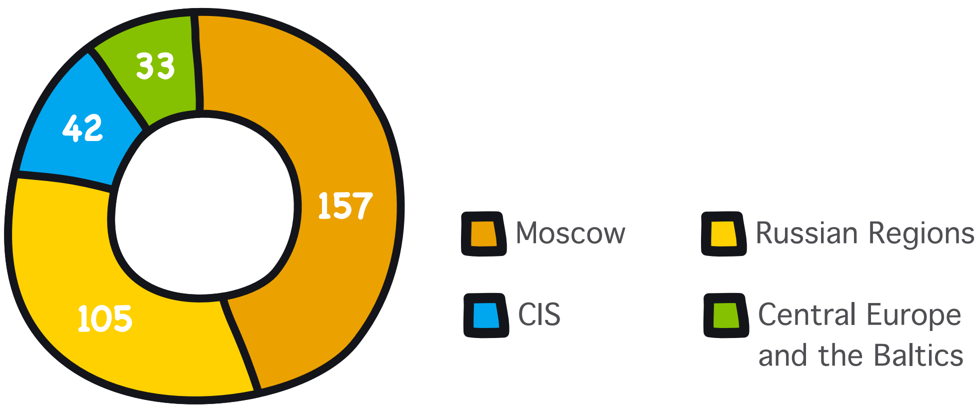
The Company's strategy is to maintain its leading position in its markets by expanding the geographical reach of its brands, through corporate and franchise development, and by consistently delivering the level of good, mid-priced food and efficient, friendly service that our customers have come to expect, increasing its loyal guest base.

Operational and Financial Highlights

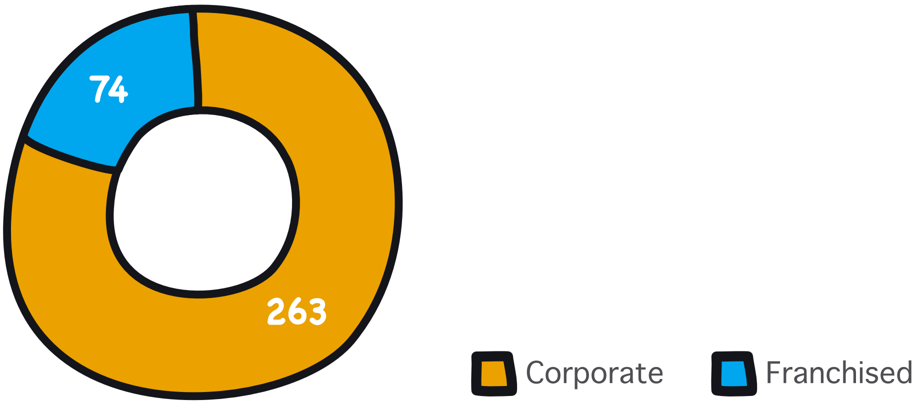
Number of Restaurants



Location by Region



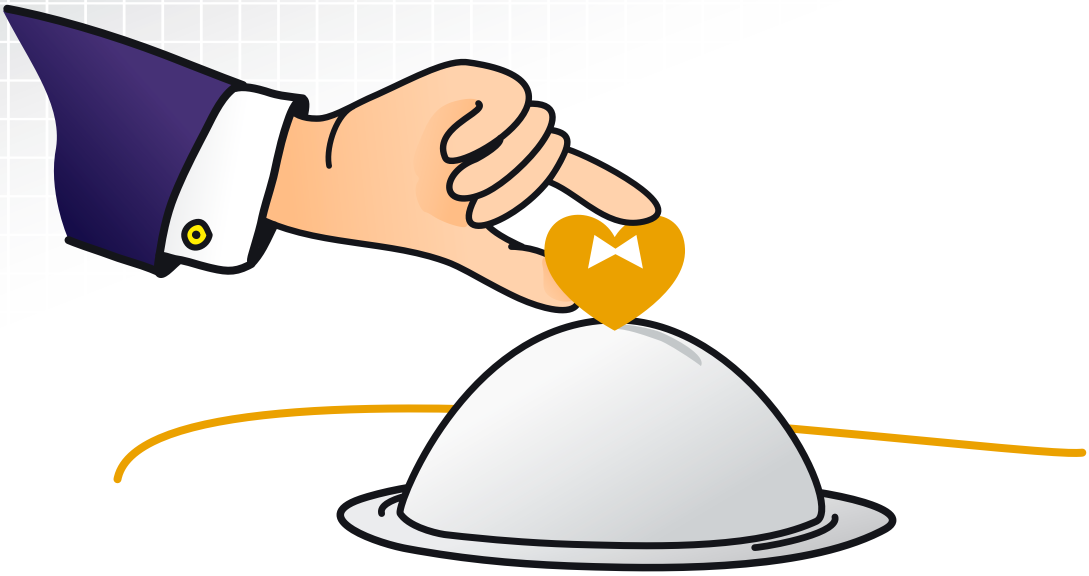
Franchised vs Corporate Restaurants



Consolidated Financial Information

Thousands of U.S. dollars	*Year ended 31 December*	
	2008	***2007***
Revenue	341,108	265,069
Gross Profit	124,467	96,832
Profit from operating activities before impairment	12,325	22,677
Profit from operating activities after impairment	6,642	22,677
(Loss)/Profit before income tax	(12,253)	10,198
Net (loss)/profit for the year	(15,206)	5,966
(Losses)/earnings per share attributable to equity of the parent entity, U.S. dollars	(1.28)	0.53
EBITDA	19,422	31,874
Adjusted EBITDA (revised)*	31,837	36,991

* *Please see Management Discussion & Analysis*



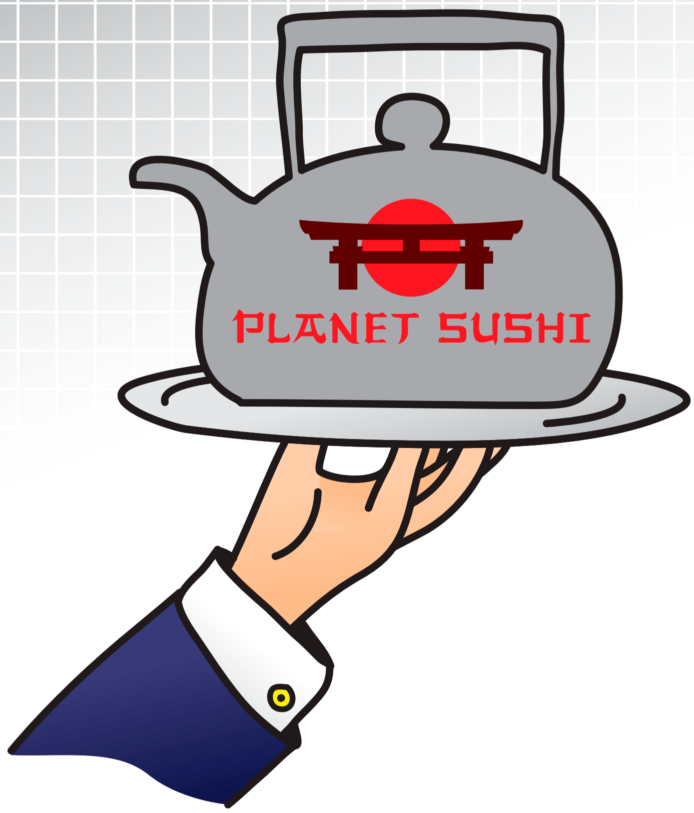
Brand Portfolio

Rosinter's brand portfolio includes Italian, Japanese, American and Russian cuisines, beer restaurants and Coffee Shops under proprietary brands IL Patio, Planet Sushi and 1-2-3 Café, and the licensed brands T.G.I. Friday's®, Sibirskaya Corona and Costa Coffee through a Joint Venture with Whitbread Plc. At the end of 2008, our restaurants were present in 33 cities in nine countries in Russia, the CIS and Central Europe (and the Baltics).

IL Patio

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 (March 2008), IL Patio was the second-best known casual dining brand in Moscow.

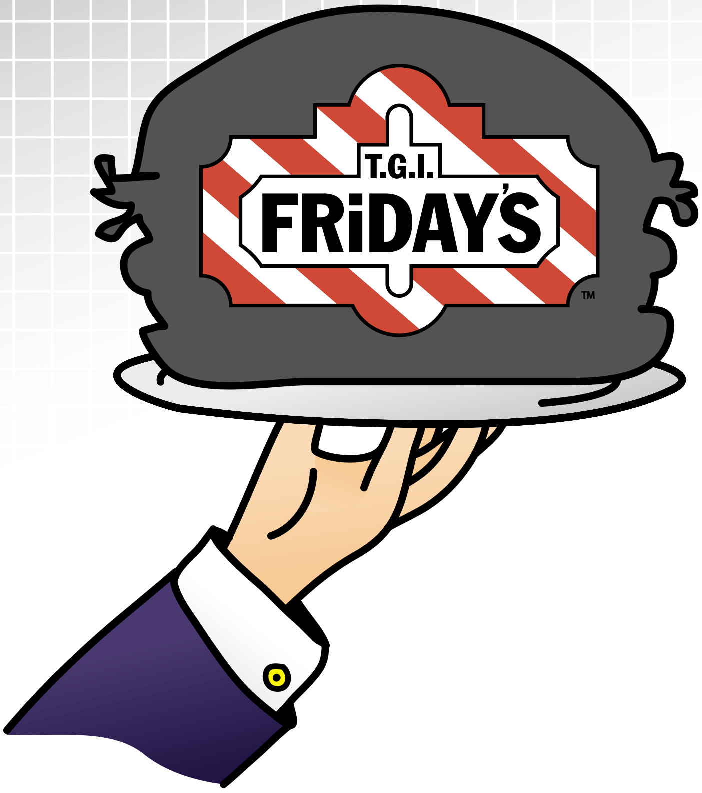
As of 31 December 2008, we operated 123 IL Patio outlets in 31 cities in 8 countries, including 37 franchises.



Planet Sushi

Our proprietary brand Planet Sushi combines original recipes and the rich traditions of Japanese cuisine, with a modern design. 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 re-styled Planet Sushi's logo, menu, service and interior design standards to be more sleek and modern. According to the Brand Health/In-Depth survey (March 2008), Planet Sushi was the third-best known casual dining brand in Moscow.

As of 31 December 2008, we operated 118 Planet Sushi outlets in 30 cities in 9 countries, including 34 franchises.



T.G.I. Friday's

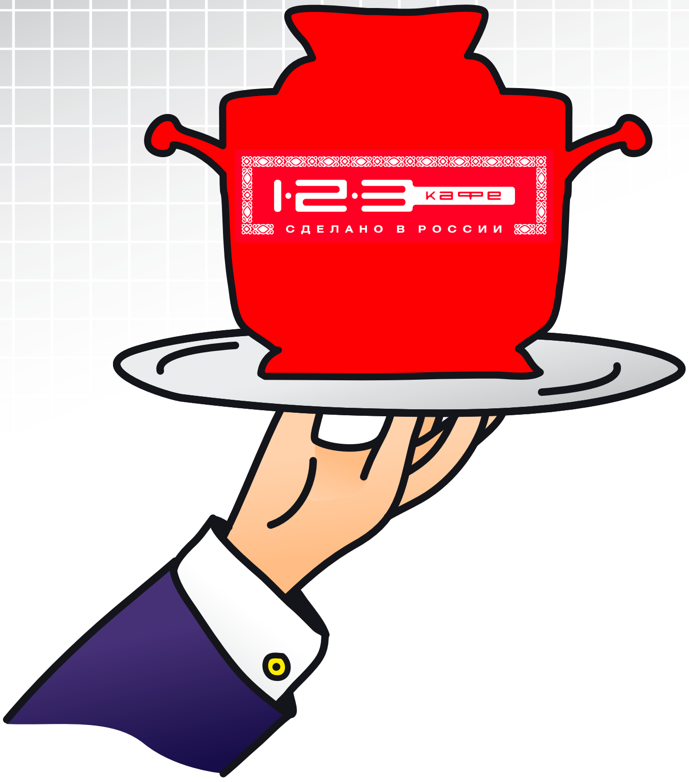
Our T.G.I. Friday's® restaurants are in keeping with the values and style of the global T.G.I. Friday's® brand. Filling appetizers, steaks and an extensive menu of high-quality, original cocktails figure prominently on its menu. Serving portions are large. Its dark wood walls lined with sport and pop/rock 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 31 December 2008, we operated 27 T.G.I. Friday's® outlets in 12 cities in 8 countries.

Sibirskaya Corona

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, spreading appealing aromas and warmth throughout the premises. Service is provided by waitresses, who welcome guests as their neighbours. Rosinter has exclusive license rights for Sibirskaya Corona restaurants in Russian regional markets.

As of 31 December 2008, we operated in total 19 Sibirskaya Corona outlets, which all are corporate, in 10 cities in Russia.



1-2-3 Café

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 in a contemporary, airy setting. 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 environment. Service is friendly and draws on Russian traditions. Red is the signature colour of this lively eating-out experience.

As of 31 December 2008, we operated 8 corporate outlets featuring the 1-2-3 Café brand in 4 cities in Russia.



Costa Coffee

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 of the food is made according to Costa's unique recipes and the best 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.

As of 31 December 2008, we operated 12 Costa Coffee outlets in Moscow and Saint Petersburg.

Rostislav Ordovsky-Tanaevsky Blanco
Chairman of the Board of Directors

Letter from the Chairman of the Board

Dear shareholders,

I would like to share my views with you regarding the business opportunities that lie ahead of us, both during these challenging times and when growth and, indeed, optimism return to the global economy in general and the Russian, CIS, Baltic and Central European consumer marketplaces in particular. After many years of operating in this exciting, fast-changing and challenging market, I firmly believe that during the years to come there will be opportunities for our company to increase its footprint in our markets by accessing prime locations through the consolidation of the marketplace and the ability to gain access to sites which had been previously unavailable to us.

In our core markets, dining out is becoming established as a widespread and important component of the culture. Following the current downturn, a return to growth in the overall economy should translate into renewed growth in disposable income levels. In turn, this will stimulate fresh demand for our brand's dining experiences. It will also demonstrate the long-term strength of our business model, which relies on our continued focus on delivering value-for-price, on the quality of our brand offerings, the high level of service and the unique dining experience in our restaurants.

Our unparalleled geographic coverage provides another important advantage that makes our brands the strongest in the casual dining segment. Il Patio, Planet Sushi and TGIF all hold leadership positions for their respective cuisines, while in the coffee shop sector we are expanding through our Costa Coffee joint venture. In the Russian cuisine segment, we are still in an early stage of development and see a great of potential going forward.

I am pleased to say that during 2008 we met our growth objectives and made significant progress in making our organizational structure more streamlined and efficient. We opened 105 new units net, bringing our total number to 337 restaurants in 33 cities in nine countries. As our business has expanded, we have also made important advances in technology and management. We completed a cutting-edge technology IT backbone. New and more flexible management structures are now in place. This new approach has involved giving more power to our regional hubs in order to be more responsive to changing market conditions on the ground. Most importantly, it demonstrates one of Rosinter's enduring strengths, namely that it is a proactive organization that is always one step ahead in the markets where it operates.

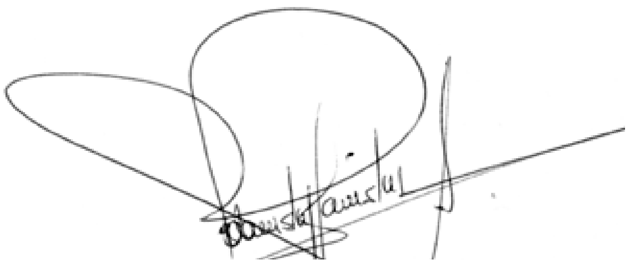
During 2008 our organization has been stress-tested by two contrasting situations: rapid growth and a sudden economic downturn. I believe that we have coped well in both respects. This is due to our pro-activeness in refocusing our strategy to address the new realities of the marketplace. Meanwhile, the experience gained in an eventful year, coupled with our deepening understanding of both our markets and our guests, will be valuable assets as we seek to continue building long-term shareholder value. I remain optimistic about the future growth potential of a marketplace that has endured so many challenges and retains so much promise.

Our stock price dynamic is dependent, among other factors, on the general stock market conditions and the economic environment in the markets where we operate. Nonetheless, I am highly confident that sooner, rather than later, it will become more aligned to the value inherent in the strength of our business and the growth potential of our brands in the markets where we are present.

I wish to thank our investors, guests, partners and employees for their continued loyalty and support during 2008.

Rostislav Ordovsky-Tanaevsky Blanco

Founder and Chairman of the Board



Lori Daytner
President and CEO

Letter from the President and Chief Executive Officer

Our Company has always focused on increasing guest satisfaction and loyalty, and 2008 was no exception. We concentrated on two areas throughout the year in order to achieve these goals. First, we expanded the reach of our brands by substantially enlarging our network of corporate and franchise restaurants. Second, we consolidated our business platform to ensure the high quality and consistency of the brand experience throughout our network, which today spans 33 cities in 9 countries. As a result, we managed to significantly grow our guest base in 2008. At the same time, we also believe that a happy, motivated workforce is integral to creating the best service and atmosphere for our guests, and so we also worked hard during the year to increase employee satisfaction and loyalty.

Development

In 2008, we delivered strong growth, increasing our restaurant network by over 45%. We added 105 new units, including franchises, which brought our total number of restaurants to 337 by year-end. This expansion was primarily organic, and compared very favourably with both domestic and international competitors. In our growing coffee shop area, just one year into our joint venture with Whitbread, we have already opened 12 Costa Coffee outlets, including units in Moscow and the Pulkovo (St. Petersburg) airport. The geographical scope of our network is also continuing to grow as we bring the passion we feel for our brands to new cities. In 2008, we expanded our franchises to four new cities and opened corporate restaurants in Poland and the South of Russia for the first time. We also made progress in our strategy of consolidating control over our key operations. To this end, we bought out our partners in Samara and Omsk, as well as the F&B operations in Pulkovo Airport.

Our development strategy continued to lead the way in terms of brand-reach and guest satisfaction in an under-served market with huge growth potential. Despite the size of our Company, we have demonstrated the flexibility to respond to changes in the environment. In late 2008, as market sentiment began to shift as a result of the global economic crisis, we halted the wide-spread roll-out of new units focusing only in strategic locations and ongoing construction and prioritizing even more our franchise network growth. Moving forward, our expanded network will strengthen our revenue base and at the same time, our strong and well-positioned restaurant network will create a strong foundation for the development of guest flow and revenue when the economy returns to growth.

Brands

The strength of our brands remains integral to the success of our business. By April 2008, our core brands, IL Patio and Planet Sushi, were the clear casual dining leaders in their cuisines, both in terms of number of outlets and geographical coverage. In Moscow, IL Patio and Planet Sushi attained 88% and 63% brand recognition respectively, according to an independent study prepared by In-Depth. We also continued to lead the way in the American Cuisine segment through the expansion of the T.G.I. Friday's® brand. In 2008, we opened new T.G.I. Friday's® units in Saint Petersburg, and improved our regional presence in Russia.

After finalising market tests in Moscow in 2007, our Russian cuisine brand 1-2-3 Café was rolled out. By the end of 2008, we had a total of eight outlets in four cities. This Russian/Slavic cuisine has the potential for significant growth. A key to our successes in the past year has been our optimal brand portfolio, which has allowed us to rapidly achieve critical mass in new markets. We believe the strong differentiation of our brands remains a chief competitive advantage and adds real strength and resilience to our business.

Operations

Our core competitive advantage relies on our ability to create a compelling dining experience and generate loyalty among our guests. In 2008, we made significant progress by systemizing our way of understanding both our guests and our markets as we were able to consolidate our IT programs and watch many of the initiatives that we planned over the past three years come to life. In 2008, our integrated IT backbone was boosted by the implementation of the Crunchtime! and Axapta systems, which have improved our inventory control and front-of-house reporting systems. This has given us real-time information on sales and cost-of-sales by SKU (i.e. dish and ingredients), as well as detailed data on consumption patterns by time-of-day. The IT systems will help us make decisions regarding menu offerings, support our R&D efforts and optimize our supply chain. In combination with our business structure, which is based around regional hubs, these improvements will lead to increased profitability for our operations. These improvements to our business platform have helped us to more accurately gauge the competitive environment, decide pricing strategy and plan locations according to the brand.

We have taken a cluster approach to pricing to reflect the diversity of the markets where we operate. This has involved setting different price levels in different cities, based on the particular competitive environment in which each brand is operating. It has also enabled us to take the lead in pricing strategy for each market, rather than merely reacting to the strategies of our competitors. Meanwhile, the data provided by our Loyalty Programs have enabled us to produce a systematic analysis of our regular guests for the different restaurants in each city. This will help us with future development plans, and will give us information on key issues such as the flow of customers between brands as well as potential market saturation.

Operating in a Changing Environment

The end of 2008 and the beginning of 2009 have posed new challenges for our business. We are now operating in an environment with limited access to financing in the Russian and global financial markets, greater currency risks and declining guest traffic. This situation has required tighter monitoring for all of our restaurants to ensure that we have positive cash-flow at each unit level, especially regarding the new units that were opened in 2008.

As part of our response, we have increased our menu offerings by adding special promotional meals, as well as a value menu targeting those guests who are seeking a lower spend-per-visit. In addition, our R&D team has reviewed all of our dishes to ensure that we are offering the best price point possible while maintaining quality and that we are better hedged against food cost inflation. In addition, we have taken advantage of the current operating environment to renegotiate rent contract terms, and have also adjusted our support structure to reflect the needs of our development plans and our staffing schedules to reflect the needs of our restaurants.

In the casual dining segment, our goal is to continue being the number-one choice for our guests in terms of price, quality and atmosphere. In 2008, we worked harder than ever to improve our connection with our guests and to make sure we take their feedback into consideration at all times. Our guest satisfaction levels can be seen through our increasing sales and growing consumer base and we believe their loyalty and our continued innovation in delivering the best possible dining experience will be critical in seeing us successfully through the 2009 challenging environment.

Where there is crisis there is also opportunity, and our team has focused on achieving the best results in the current environment. As always, we have been unrelenting in maintaining value-for-money for our guests with the support of our R&D organization. Indeed, we have just completed a new 200 square meter test kitchen in Moscow, which will help us prepare for the future. Rapid growth in 2008 has also helped to identify areas for improvement and provided invaluable experience, enabling us to streamline and enhance our operational management standards. Looking forward, we believe that there is a valuable opportunity to improve our brand performances by changing the physical layout of the restaurants and by making them yet more efficient. These conclusions are the result of both internal analysis and the findings of SRE, an international consultant in the hospital industry, which conducted research on our restaurants in early 2008.

2008 Financial Highlights

In 2008, we delivered a 28.7% revenue increase to US$341.1 mln from US$265.1 mln in 2007, on the back of a SSSG of 17.2% in US$, including a 3.2% transaction growth, and 105 net new openings during 2008.

Our focus on efficiency allowed us to maintain during 2008 our Gross Profit Margin at 36.5% of revenue, as in 2007, even when our restaurant portfolio had in 2008 a substantially higher component of new restaurants which have lower profitability than mature restaurants in their initial months of operations.

However, our 2008 company results have been affected by three factors: Start-up expenses for new restaurants related to our strong corporate development in 2008, foreign exchange losses from financial activities originated by the Rouble devaluation in the fourth quarter on our US-dollar denominated debt, and a provision for impairment of operating assets. Such factors led to a Net loss of US$15.2 mln for the period while our profit from operating activities before start-up expenses and impairment of assets reached US$24.7 mln and our Adjusted EBITDA (EBITDA before start-up expenses and foreign excange losses related to US-dollar denominated debt) totalled US$31.8 mln.

In conclusion, from an operational perspective 2008 has been an exciting, challenging and ultimately a breakthrough year for our business. We have rapidly expanded our network, and have improved our technological and organisational capabilities. We have the capacity, the brands, the knowledge, and above all the passion to ensure that, as the economy recovers to its former strength, our business will continue to lead the way in terms of growth, innovation and guest satisfaction.

Lori Daytner

President

Chief Executive Officer

Social Responsibility

At Rosinter we believe in treating our guests, partners and employees as part of our family. We want our food and our team to bring people together, and we strive to make this happen every day. This guiding principle is at the heart of our operations, and can be witnessed in all of Rosinter's business relationships. We have also demonstrated this commitment in a number of recent initiatives both within the Company and in the communities we serve.

The Work Environment

Caring for each individual member is the foundation of a strong, cohesive team. We demonstrate our commitment to our employees by creating a positive, energizing work environment designed to attract and retain the best people at every level of the business. We also implement comprehensive training and mentoring schemes and encourage the sharing of best practices to ensure optimum performance. A vital component of this is also sharing information between office and restaurant teams and throughout the organization. We firmly support two-way communication. 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. A harmonious and motivating work atmosphere is a key advantage in attracting and retaining a quality workforce.

In Human Resources, we always aim to maintain the five key advantages that make it stand out from other companies:

- Significant opportunities for career growth;
- An atmosphere of stability, reliability and optimism;
- Dynamic development of the company;
- Pleasant working atmosphere, strong traditions and a sophisticated corporate culture;
- Security provided through additional benefits.

Training

Training and education is also important in order to get the best out of our team members and we implement an extensive training and mentoring program for new employees. We also regularly single out outstanding employees and have frequent personnel recognition events at both the corporate and restaurant level. Our most successful employees of the year are honoured at the annual “Best of the Best” award ceremony, which includes team members from the Moscow, Regional and European Business Units. As loyalty is important to us, we also hold an annual Company Day celebration, where employees who have stayed with us for, five, ten or fifteen years are honored.

Since the Company was founded, we have run our own Training and Development center. It is capable of training new employees to the highest standards of Western service, as well as enhancing the qualifications of our existing team members. As a result, we are able to reduce both the need and the cost of bringing in external training companies. In 2008 an online distance learning program was introduced.

During the year, Rosinter worked with the innovative educational company RMA, under the auspices of the Russian State Academy of Management, on a specialized program entitled Management in the Restaurant Business and Club Industry. The best-performing employees in the Company’s restaurant business and those with the best results from the Rosinter Training and Development Centre now have the opportunity to further their education and undergo extensive training through this program.

In addition, we have established a company mentoring program. Managers greet each new employee and acquaint them with their team and mentor. The mentors in turn familiarize the employees with the extensive training program, which includes master classes in the workplace. This ensures that each new team member works at the top of his or her capabilities and has complete understanding of the job responsibilities.

Communication & Sharing Best Practices

We continue to seek to foster Rosinter's corporate culture and to improve the performance of all of its team members by sharing best practices. 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 are always keen to listen to the feedback from our employees and act on their valuable insights. Also, a portal was set up on the Intranet and made accessible in all regions where the company operates. Now, employees at all levels can get information regarding the latest Company events on-line.

It is also vital to take advantage of the experience gained by our employees and we have created communication platforms where best practices can be shared. This includes the frequent sharing of information between our restaurant and office teams. We also promote communications through our own Intranet system to share knowledge across our Company, which can be accessed at the corporate office and at most of our restaurants. Work began in 2008 on a communications program designed to bring together professional experience from each area of the Company. This has included creating a single database of 'Best Practices', which is helping us to share procedural knowledge within the Company. In December 2008, a competition called 'the Big Drive' was also held among teams made up of managers from our support centre and restaurant employees throughout all our business groups. This reinforced teamwork and also delivered an increase in sales.

Other initiatives in 2008 included sending employees from the business support centre out into the field to gain first-hand experience and to develop their skill-sets. For example, under this program, new senior managers spend a training period of up to four weeks in a restaurant so that they become familiar with all aspects of Rosinter's business.

In order to create a positive communication space on the Intranet, and to help maintain a spirit of open discussion, an option was added allowing public discussion of the Company's news at all levels. We also began work to create specialised websites for departments and regional companies on the Intranet. To help tackle operational issues, the 'Good News' Internet resource was created, which allows us to take advantage of the depth of knowledge throughout the company and share best practices.

The Company has developed two new forums that allow 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 ROSINFO Review.

In addition, in 2008, a professional corporate film was made about Rosinter, which is designed to help new employees learn about the Company and its values. The film is part of the updated 'Vision in the Company' program.

Food Safety

Rosinter can always be relied on to deliver high-quality, fresh, and delicious products. As a result, we take all safety issues very seriously. Rosinter has always endeavoured to take the lead in implementing food safety standards in Russia and the CIS, and we follow rigorous hygienic and sanitary procedures at every restaurant. All of our corporate and franchise restaurants are required to meet international food safety and quality assurance standards, and we comply with the statutory health regulations of each market in which we operate. We also seek to follow the HACCP (Hazard Analysis Critical Control points) program, which has been supported by law in the European Union and is used by most international restaurant chains. The program includes strict guidelines on the correct handling, preparation and storage of food products. In order to ensure that food safety standards are maintained, our store managers undertake comprehensive audits on a quarterly basis. Meanwhile, all employees are required to complete a food safety training course, in order to instil in them the importance of correct procedure at all stages of the food preparation process. Our senior managers, meanwhile, have been given introductory HACCP training.

Community Action

Rosinter's focus always remains firmly on the society in which we live. As a responsible corporate citizen, we devote considerable time and money to support humanitarian and charitable projects. In 2008, we became part of 'Charity Instead of Souvenirs', which is run by the Charities and Aid Foundation (CAF) Russia. The essence of the initiative is to use the funds that companies and organizations usually spend on gifts for partners and colleagues to help the most vulnerable members of Russian society, such as children, orphans, the disabled, the chronically ill and the elderly. As part of the initiative, our company has provided financial support to charitable organizations, including the Center for Humanitarian Programs, the “Children of Maria” Arts Rehabilitation Center and the Gift of Life Charitable fund. In addition, Rosinter employees take part in charitable fundraising efforts on behalf of the Russian Children’s Oncology Center numerous times throughout the year.

The “Maria’s Children” Arts Rehabilitation Center is particularly close to the Company’s heart, and we have been supporting this charity for the last five years. 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. Employees at Rosinter’s restaurants and corporate centre help to organize fundraisers to support this cause. Our restaurants also feature an annual exhibition of children’s art, which is then auctioned off to our customers in order to provide additional financial assistance to Maria’s Children. We are especially proud of the support that we have been able to provide to this worthy organization.

Share Capital

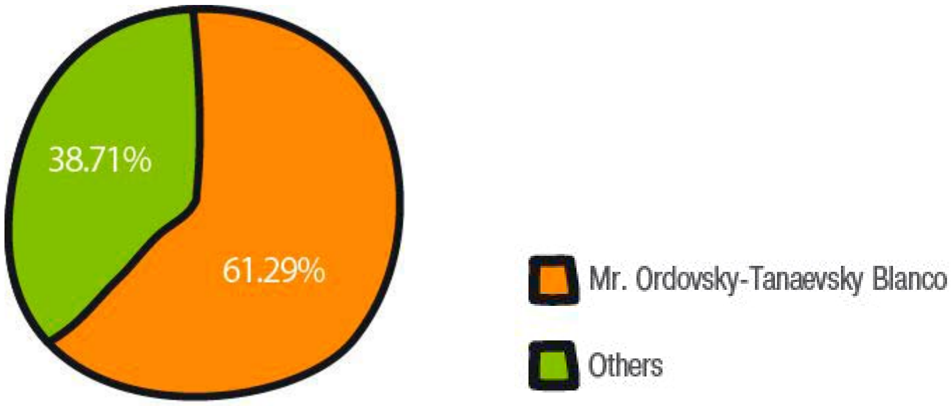
Shareholding Structure

We retain an independent share registrar and we announce all significant transactions involving our shares by RIG Restaurants Limited, as well as all significant operational and financial information of the Company that might potentially affect the market value of its securities. We endeavour to maintain up-to-date data base of all investors who have requested to be provided with the latest publicly released news concerning our Company. As always, we strive to maximize both the free-flow of information and proactive communications with the wider global investment community.

The share capital of Rosinter Restaurants Holding on 31 December 2008 consisted of 12,030,457 ordinary shares with a nominal value of Roubles 169.7 each. On 27 December 2007, Rosinter Restaurants Holding announced that 1.22% of its shares had been bought from its largest shareholder, RIG Restaurants Ltd, by Rosinter Restaurants LLC, its 98.7% owned subsidiary. These shares are tentatively designated for use in a future employee stock option plan (ESOP) that is currently under consideration.

On 11 August 2008, Rosinter Restaurants Holding announced that its ordinary shares had been admitted to trading on the Moscow Interbank Currency Exchange (MICEX). This has made the shares available to a broader base of investors and will help the Company increase the liquidity of its stock. Since 29 July 2008, Rosinter Restaurant Holding's ordinary shares have been trading on the Quotation List 'B' of the RTS. Rosinter has been listed on RTS since 1 June 2007.

As of 31 December 2008, around 61.29% of the shares were beneficially owned by the Company's founder and Chairman of the Board, Rostislav Ordovsky-Tanaevsky Blanco, 1.22% are owned by Clarsfield Ltd, 100% owned subsidiary of Rosinter Restaurants Holding, and are reserved for a potential ESOP, and the balance including the 25.98% IPO free float is owned by third party shareholders.



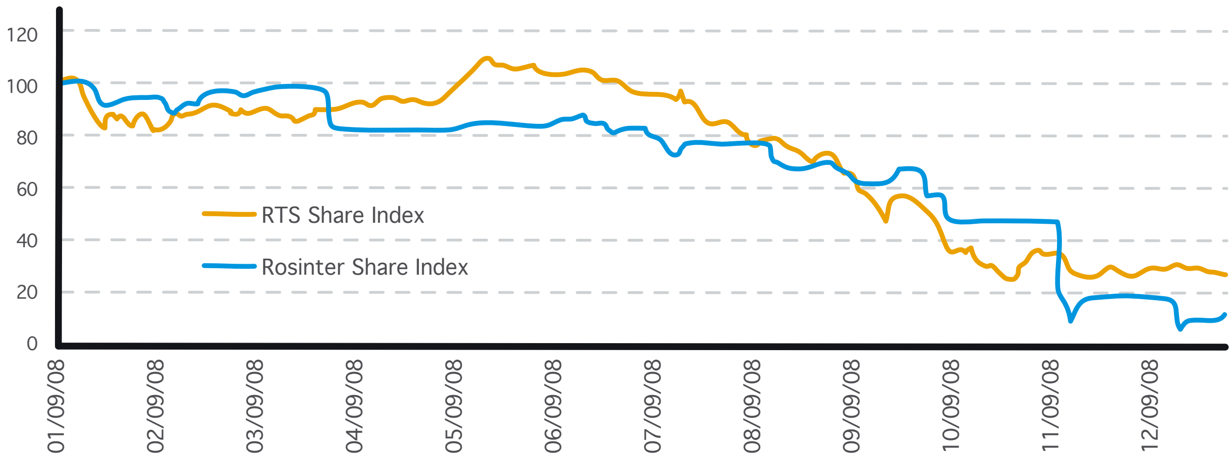
Source: Company data

Share Price Performance

The ordinary shares of Rosinter Restaurants Holding are listed on the RTS and MICEX stock exchanges under the ticker 'ROST', and have been publicly traded since 1 June 2007. Our IPO free float was 25.975% of our issued share capital. Our stock was sold during the IPO for US$32.0, bringing the Company a market capitalisation of approximately US$385 mln. At the end of 2008, the value of stock stood at US$7.0, representing a market capitalization of around US$84.2 mln. The share-price high for the year of US$58.5 was reached in early January. We believe the sharp fall in our share price in the fourth quarter of 2008 was linked to broader unfavorable conditions in the Russian and global financial markets.

The historical performance of any stock is not a guide to future performance, and current and potential investors should seek independent advice before making investment decisions. The investor relations area of our corporate website (www.rosinter.com) provides a list of independent analysts who cover our Company.

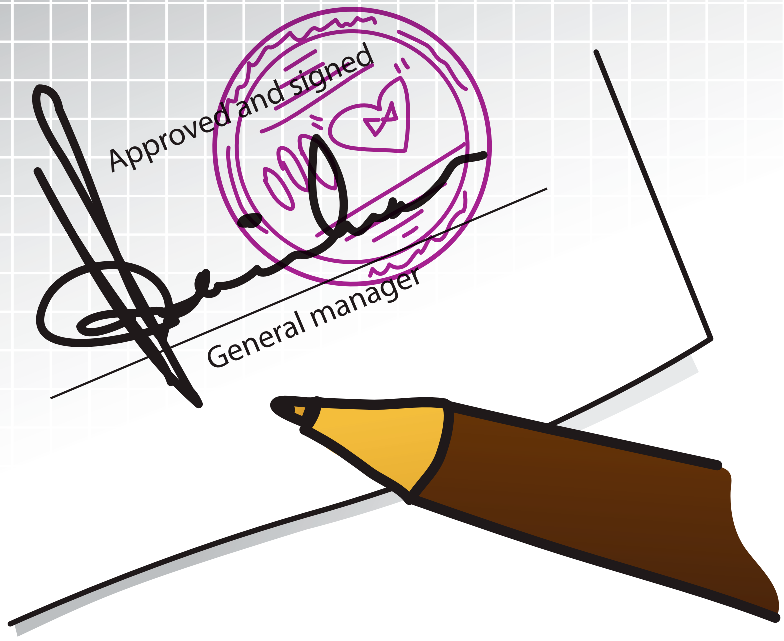
Rosinter Share Price Index vs RTS Share Price Index – 2008



Dividend Policy

Our Dividend Policy is based on the belief that the reinvestment of profits to fund the continued growth of our business represents 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, given the capital requirements of our business and current development strategy.

Any future payment of dividends must be recommended by our Board of Directors and approved by our General Meeting of Shareholders, in line with our Corporate Charter. In addition, our ability to pay dividends is also governed by Russian legislation and is dependent upon the receipt of dividends and other distributions from our subsidiaries. By law, Rosinter Restaurants Holding's dividends have to be paid from the company's net profit according to Russian Accounting Standards (RAS).



Management and Corporate Governance

Our corporate governance is conducted in accordance with both Russian and international best business practices, and is in line with Joint Stock Companies Law, the Company Charter, and internal policies, as well as all other applicable laws and regulations. However, we have also adopted many concepts of governance that are prevalent in Western Europe and the United States.

Presently, our corporate organization has a two-tier structure. The Board of Directors is responsible for the strategic management of the Company. Meanwhile, the Management Board is tasked with day-to-day operational activities, as well as with implementing the strategic vision of the Board of Directors. This clear division of responsibilities has allowed us to adhere closely to the best corporate governance policies in the international domain.

We have always viewed corporate governance as a vital tool for maintaining the Company's competitive edge and we have established a culture of corporate governance in the Company by instilling these values throughout the organization. From the start, our business has implemented such governance activities as setting business strategy, determining risk, establishing culture and values and developing internal policies and monitoring performance.

In 1995, we adopted U.S. GAAP accounting standards, in order to embrace a system of transparency. We also hired Ernst & Young as our external auditor. This allowed us to begin to attract international investors and helped to facilitate growth. In addition, we established quarterly board meetings with independent directors who had substantial international experience. Our board meetings also began following standard international practice, with a published agenda, board book and signed Minutes. The development of our corporate governance structure culminated in the creation of a “Corporate Governance Framework” in 2005. This framework now covers the following: Board Structure and Composition; Board Operations and Effectiveness; Strategy; Planning and Monitoring; Risk Management and Compliance Processes; Reporting and Control; and Corporate Citizenship. Meanwhile, in a move to improve our internal regulations, we implemented an Internal Audit department and an Audit Committee.

As our company expands and evolves, the management structure continues to develop in order to meet the demands of the operating environment. This involves delegating more responsibility to regional hubs for the day-today running of the business and improving internal controls to increase effectiveness.

The Company’s main decision-making bodies are the annual General Shareholders’ meeting, the Board of Directors and the President.

Shareholders General Meeting

The annual General Shareholders’ Meeting is the Company’s supreme management body and consists of all its shareholders. It is empowered to make decisions regarding the principal issues of the business, including the composition of the Board of Directors, amendments to the Charter and approval of major transactions. In 2008, the Company conducted one annual general meeting and two extraordinary meetings (absentee voting), which were required to approve major transactions and as lined out in the Company’s Charter.

Board of Directors

The Board of Directors consists of seven members, including five independent members. The Board of Directors held four meetings in 2008. There were also several extraordinary meetings, held in the fall of 2008 in order to carry out a prompt monitoring of the Company’s business operations in relation to the changing economic environment. Major items addressed: (i) approval of the 2009-2013 Strategic Plan, (ii) approval of the 2009 Operating Plan, (iii) quarterly review of operating results compared to Plan, and (iv) approval of the Company’s External Auditor.

While retaining overall responsibility, the Board of Directors assigns certain specific duties to its two permanent committees: the Audit Committee and the Remuneration Committee. In 2008, no new committees were formed.

Audit Committee

The Audit Committee is tasked with supervising our financial, management and tax accounting. It is also responsible for the appointment and dismissal of external auditors. At the request of the Board, the Audit Committee examines Company activities and reports to the Board its findings. It looks also into matters that it regards as important to the Company's financial stability.

The Board of Directors appoints the Audit Committee from among its members. The current Audit Committee was appointed in June 2008 and consists of three members:

- Mr. Maurice Worsfold (Chairman);
- Mr. David Fitzjohn;
- Mr. Vladimir Mekhrishvili.

Remuneration Committee

The Remuneration Committee is responsible for determining the compensation and benefits for the members of the Board of Directors, members of the Internal Audit Committee and Senior management. It also determines the criteria for the candidates for the Board of Directors, President and other executive offices, and monitors and evaluates the performance of those who hold Senior positions, including the President

The Board of Directors appoints the Remuneration Committee from among its members. The current Remuneration Committee was appointed in June 2008 and consists of three members:

- Mr. David Fitzjohn (Chairman);
- Mr. Tony Hughes;
- Mr. Vitaly Podolski.

President

The President is the Chief Executive Officer (CEO) and Chairman of the Management Board. On an operational basis, the Board of Directors delegates perform day-to-day running of the company to the CEO, with the exception of certain clearly defined activities, which are controlled by the Board. The President's major role consists of the yearly preparation of both a five-year strategic plan and an Annual Operating Plan. The President is tasked with presenting these plans to the Board of Directors for approval. In addition, the President prepares a quarterly briefing for the Board of Directors on the Company's financial performance, which is measured against the approved Annual Operating Plan. The President is appointed by the Board of Directors. Annually, an audit is carried out by Independent Auditors and the President is required to address the audit findings and report on them to the Audit Committee.

Approval of the annual Operating Plan is not an approval of expenditures contained within the Plan. Significant items are subject to further review before expenditure is approved. These approvals are given in one of two monthly meetings: the Monthly Operations Review meeting (MOR) for major projects and the Monthly Cash Review Meeting MCR for capital expenditures. Capital expenditures are subject to individual analysis of each business case.

Management Board

Within our corporate structure, the Management Board assists the CEO in the operational management of the company. The Management Board is comprised of two levels and holds regular meetings twice a month. The upper level is made up of the CEO, the Chief Financial Officer (CFO) and the General Counsel. The lower level is comprised of all other people reporting directly to the CEO.

The Management Board's responsibilities include approving organizational improvements, implanting personnel policy and analyzing the Company's financial activity. The limits of authority and responsibility for approval/signing are clearly enumerated in a document that is maintained by the Legal department that defines the authority of the Board of Directors, the President and other managers. It also defines the activities and expenditure limits for each level of the Company. This is an important internal control tool which sets the standard by which audits can be completed.

The Management Board is appointed by the Board of Directors. It currently consists of:

- Ms. Lori Daytner (President and CEO);
- Mr. Alexander Roslavtsev (CFO);
- Mr. Dmitry Timofeev (General Counsel, Corporate Secretary).

Members of the 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 is 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 previously 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. Ordovsky-Tanaevsky Blanco graduated from Simon Bolivar University (Venezuela) in 1981 with a specialization in chemical engineering.

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

Mr. Burelli has been an advisor to Mr Ordovsky-Tanaevsky Blanco since 1992, and joined Rosinter in 1997 as a Non-Executive Director. In addition, he served as Chairman of the Board of Synergy Co, a leading Russian spirits company, until May 2009 and continues to serve as Senior Advisor to the company's CEO. Mr. Burelli has served as a member of the Executive Board of Petróleos de Venezuela (PDVSA) from 1996 to 1999. Previously, he worked at JP Morgan from 1986 to 1996, where he held numerous 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. Burelli holds a BA from the University of Southern California (USA) and an MPA from the Kennedy School of Government at Harvard University (USA).

Mr. David Fitzjohn (1956)

Member of the Board, Chairman of Remuneration Committee, Member of Audit Committee

Mr. Fitzjohn joined Rosinter in 2006 as a Non-Executive Director, and is currently the Chairman of the Remuneration Committee. Previously, Mr. Fitzjohn was the Managing Director at Yum! Brands Inc. Europe, which includes such brands as KFC, Pizza Hut and Taco Bell Restaurants. In addition, he has held numerous executive management positions at Burger King, as well as at the well-known retailers Grand Metropolitan and Laura Ashley.

Mr. Fitzjohn graduated from Reading University (UK) with a B.S. in Estate Management and an M.Phil. in Environmental Planning. He is a Fellow of the Royal Institution of Chartered Surveyors and of the Royal Society of Arts in London.

Mr. Maurice Worsfold (1935)

Member of the Board, Chairman of Audit Committee

Mr. Worsfold joined the Company in 1995 as Chief Financial Officer (CFO) and also became the Corporate Secretary in 1997. He joined the Board of Directors as a Non-Executive Director in 2002, and currently serves as the Chairman of the Audit Committee. Previously, Mr. Worsfold served as Vice President, Audit and Controls at NorthWestern Corporation (U.S), Vice President of Finance and CFO at VimpelCom and CFO at ClearWater (Russia). Mr. Worsfold worked at IBM for 25 years in the U.K., Canada and the U.S.

Mr. Worsfold received a BBA from the Chartered Institute of Corporate Secretaries (UK) in 1965 and a BA from the University of Waterloo (Canada) in 1987.

Mr. Vladimir Mekhrishvili (1957)

Member of the Board, Member of Audit Committee.

Mr. Mekhrishvili is Senior Vice-President for Corporate Finance and Administration of Rostik Group, and Managing Partner of CorpEstate real estate holding. He has been Financial/Executive Director of Rostik Group since 1992, and in 1996, he became a Member of the Board of Directors. In 2006, he joined the Audit Committee. Before joining Rostik Group, he was head of department in USSR State Bank. He then worked as Deputy Director for economics at the Electronic Equipment Factory, and the Financial Director in the Marco Polo international chain of hotels (Russia).

Mr. Mekhrishvili graduated from the Tbilisi State University in 1978 with a degree in economics. In 1996 and 1998, he completed his post graduation in the London business school and the Institute of professional accountants of England and Wales accordingly. In 2005, he received the Certificate of U.S. National Association of Corporate Directors (NACD).

Mr. Vitaly Podolsky (1968)

Member of the Board, Member of Remuneration Committee

Mr. Podolsky joined the Company in 2008 as Independent Director. He started at A.T.Kearney and proceeded as Senior Banking Associate at Bankers Trust International Plc. Mr. Podolsky also worked for FORD MOTOR COMPANY, Ltd. and FORD EUROPE. He served as CFO of Perekrestok ltd. and X5 Retail Group N.V., Russia's largest public food retailer in terms of sales. Starting from January 2008, he has held the position of Advisor to Chief Executive Officer, and Chairman of the Board of X5 Development and X5 Retail Group N.V. Also, since September 2008, Mr. Podolsky has been a managing director at Renaissance Partners.

Mr. Podolsky graduated from Moscow State University and earned an MBA degree in International Business and Finance from Chicago University.

Mr. Tony Hughes (1948)

Member of the Board, member of Remuneration Committee

Mr. Hughes joined the Company in 2008 as Independent Director. He has extensive experience in the restaurant business and held numerous management positions at Stanneylands Ltd. Mr. Hughes worked for Whitbread Plc as Operations Director of Beefeater, MD of T.G.I. Friday's and Group Service Quality Director. He also served as MD of Bass Plc Restaurant Division. In 2002 he was appointed to the Board of Mitchell's & Butlers Plc. He retired in December 2007 and took a non-executive directorship in The Restaurant Group Plc.

Mr. Hughes attended Hollings College (Manchester).

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 31 December 2007 and 2008, 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 4, 28 and 29, respectively.

Overview

Rosinter Restaurants Holding is the leading casual dining operator in Russia and the CIS. We operated 337 restaurants, including 74 franchises, in 33 cities and 9 countries as of 31 December 2008. We feature some of the most recognized brands in Russia and, according to a research report by Business Analytica prepared for us, as of 31 December 2008, we had the largest market share by number of restaurants and revenue of all casual dining operators in Moscow and the most extensive coverage in Russian regions and CIS by number of cities and number of outlets. In 2008, we served approximately 15 mln guests, on average more than 40,000 guests each day in our corporate restaurants. Our revenue for the year ended 31 December 2008 was US$341,108 thousand compared with US$265,069 thousand for the year ended 31 December 2007. At 2008 year-end, we had approximately 8,200 employees. On 1 June 2007, we successfully listed our ordinary shares on RTS (www.rts.ru) under the ticker ROST with an initial free float of 25.976%. On 11 August 2008, our shares were admitted to trading on the Moscow Interbank Currency Exchange (MICEX) (www.micex.ru) also under the ticker ROST.

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-recognized casual dining brands in Moscow, according to a study prepared for us by In-Depth in March 2008. As of 31 December 2008, our IL Patio restaurants featured Italian cuisine in a casual contemporary setting in 31 cities, while our Planet Sushi restaurants offered Japanese cuisine in a soothing Asian atmosphere in 30 cities. Under an exclusive franchise arrangement, we operated T.G.I. Friday's® restaurants in Moscow, St. Petersburg, Omsk, Minsk, Kiev, Dnepropetrovsk, Atyrau, Astana, Riga, Prague, Budapest, and Warsaw. Across ten cities in Siberia, Urals, North-West and South region of Russia, we operated Sibirskaya Corona (Siberian Crown) beer restaurants, serving Russian cuisine under a license agreement with Sun InBev, which owns the Sibirskaya Corona trademark. As of 31 December 2008, we also owned eight outlets of 1-2-3 Café in four cities, a new restaurant concept, which we successfully launched in December 2005, providing traditional Russian food in a contemporary atmosphere. In December 2007, we signed a Joint Venture agreement with Costa Limited, a subsidiary of Whitbread Plc, to develop the Costa Coffee chain in Russia. Our first Costa Coffee flagship outlet was opened in March 2008 in the Pushkinskaya square in the centre of Moscow, barely four months after we signed the Joint Venture agreement, and as of 31 December 2008 we already operated 12 Costa Coffee outlets in Moscow and Pulkovo Airport in Saint Petersburg, of which 6 were rebranded from our existing Moka Loka outlets.

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 outlets increased to 337 restaurants as of 31 December 2008 from 232 as of 31 December 2007. 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 31 December 2008 and 2007'.

Multiple Business Models

During the periods under review, we operated our business through corporate and franchised restaurants. A new corporate restaurant does not contribute to our operating profit immediately since it is typically required 12 to 18 months for its revenue to reach a mature level. Unlike corporate restaurants, the franchised restaurants contribute to our operating profit immediately due to upfront franchise fees and monthly royalties payable to us by the franchisees.

In 2008, we had 94 net corporate restaurants openings developed under the stand-alone and the Combo format. We believe that development through the latter format has enabled us to benefit from: (i) better access to real estate at lower rental cost, and (ii) 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 consider the Combo format as our preferred development format for our corporate restaurants. Additionally, in some of our corporate operations we have JVs with our partners. This is a structure that we are discontinuing by buying out our partners' shares. In 2008, we continued consolidating our control of our operations by buying out our partners' stake in key and strategic operations. We bought-out our partners in the F&B operation in the Pulkovo airport in Saint Petersburg and we structured both the purchase of our partners' stake in Samara and the acquisition through our JV in Omsk of our branded restaurants, previously owned and managed by our Omsk JV partner under franchise agreements.

Beside our corporate restaurants, we have a very extensive franchise chain. As of 31 December 2008, we had in excess of 30 franchisees, which have been successfully developing our brands (mainly IL Patio and Planet Sushi) in Moscow, Russian regions, CIS and the Baltics. In 2008, our franchisees opened a net 17 new restaurants across all our business areas. In 2008, our franchise operation began to expand well beyond Moscow, our traditional franchise area, and has contributed to increasing our brands coverage to several new cities such as Nizhny Novgorod, Ulyanovsk and Ufa, a trend which we expect to continue in 2009 and years to come. The markets that we have designated for franchise development tend to be cities with about 500,000 to 750,000 people.

Multi-market Development

In general, our strategy includes a focused multi-market development plan, which combines simultaneous development in profitable markets and in markets with high growth potential. 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 restaurants. In order to allow for an efficient support to corporate and franchised development, we created our Hub cities structure. At the end of 2008, we had nine hub cities Moscow, St. Petersburg, Rostov-on-Don, Samara, Yekaterinburg, Novosibirsk, Kiev, Almaty, and Prague covering Moscow and its surrounding areas, St. Petersburg, South Russia, Volga region, Urals, Siberia, Ukraine/Belarus, Kazakhstan and Central Europe (and the Baltics), respectively. Hubs provide support for both corporate and franchised restaurants in training/HR, operations, marketing, development and finance activities. Besides speeding up the decision making process and improvement of operational control, the Hub structure is also expected to lead to efficiencies at the SG&A level from 2009.

Pricing Policy

By the end of 2008, we developed and set in place an enhanced pricing policy that allows for a more effective and flexible price adjustments and menu control. We have a single company-wide core menu with a local menu page added at each hub city level, which, on the one hand, secures maximum consistency, quality, speed and economies of scale, and, on the other hand, provides for flexibility in emphasizing unique consumers' preferences in each region. We apply market driven approach and price our dishes in each market depending upon local disposable income levels and competitive environment, which is studied thoroughly by our Sales and Marketing team. We have created a menu pricing clusters system, which allows us to price and efficiently control our sales and our profit levels by dish. Assignment of cluster by city for each menu category is implemented on the basis of competitive environment and key competitors pricing points.

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, our company is 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.

Costs and Expenses

We have been focusing on decreasing the cost of goods sold as a percentage of revenue 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) re-engineering our existing menu targeting always compelling menu propositions for our guests with a more efficient cost of food profile.

Also, taking advantage of a more favourable real estate market since 2H 2008, we have been renegotiating our rent contracts for existing restaurants and we have also succeeded to agree in most cases with landlords to cancel our rent payments for most restaurants that were under construction until they were opened. We intend to continue leveraging our status as a preferred tenant that leases substantially larger spaces than competitors in order to further improve our 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. We have also continued in our effort to schedule more efficiently restaurant personnel in order to better manage our cost of labour.

Loyalty Programs

Our loyalty programs are an important component of our marketing strategy. We have initiated development of two loyalty programs in Russia, the Honoured Guest Program (or HGP) and MALINA™. 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 catalogue. HGP still operates in the regions of Russia. However, in April 2006, it was replaced by MALINA™ in Moscow. MALINA™ offers reward points based on customer purchases that can be redeemed for a wide variety of awards. Such 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 fluctuations in the economy and in the markets in which we operate, significantly influence the Group's results of operations. Since 2002, Russia has been experiencing stable and relatively high GDP growth rates compared to those of North America and Western Europe. This was coupled by decreasing unemployment levels and increasing levels of disposable income among the population. In 2008, however, the GDP growth in Russia showed some deceleration caused by the global downturn, but still remained higher than growth rates seen in the developed countries.

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

Year ended 31 December

	2008	2007	2006	2005	2004
GDP growth	5.6%	8.1%	7.7%	6.4%	7.2%
Consumer price index	13.3%	11.9%	9.0%	10.9%	11.7%
Unemployment rate	7.7%	6.1%	6.9%	7.6%	8.2%

Sources: Federal State Statistics Service; Central Bank of Russia

Recent Developments

Business environment in 2009

The economic downturn since end 2008 in Russia and CIS has changed substantially the business environment in which we operate and has affected our business mainly in two key areas: i) Guest traffic flow to our restaurants; and ii) Access to bank financing.

Since October 2008, when the economic crisis began to unfold showing a visible economic slowdown trend, management set up an action plan that had two main directions:

a) Actions to strengthen revenue and traffic flow, mainly by adding a new “value menu”, focusing on a time-segmented menu management to capture high, middle and low average check guests, and by reengineering all our dishes and redesigning our core menus to keep our offer both compelling and affordable to our guests.

b) An increased focus on efficiency and cash flow management in order to ensure our ability to operate efficiently our business and service our existing loans in the new economic environment. This was achieved by focusing on profitability and cash generation at each restaurant level, enhancing our working capital policy and reducing support services expenses, including our Hub cities structure. We also set for 2009 the target to grow our network mainly through our franchise network.

Financing

On 3 June 2009, the Group received a Rouble 950,000,000 million credit line (US$30,912 thousand at the exchange rate at 3 June 2009) from Sberbank due in June 2012 for the purpose of covering any potential repayments of bonds in accordance with the early redemption right bond holders had on 4 June 2009. (Please, refer to Notes 2 and 30 in the Financial Statements).

During fourth quarter 2008 and first half 2009, in a very limited bank credit availability environment, management has been very successful in implementing a financial strategy focused on i) reducing debt through cash flow generated by the business, and ii) enhancing the maturity profile of its financial debt through extending the maturity of existing debts and new borrowings, including the Sberbank loan. As a result, as of 10 June 2009, the Company's total debt amounted to US$74.0 million and debt repayment schedule is presented in the table below.

	Amount (US$ mln)
Still due in 2009	25.3
Due in 2010	21.7
Due in 2011	0.4
Due in 2012	26.6
Total	74.0

Comments on the influence of the second half 2008 economic crisis in the Group's Financial Results

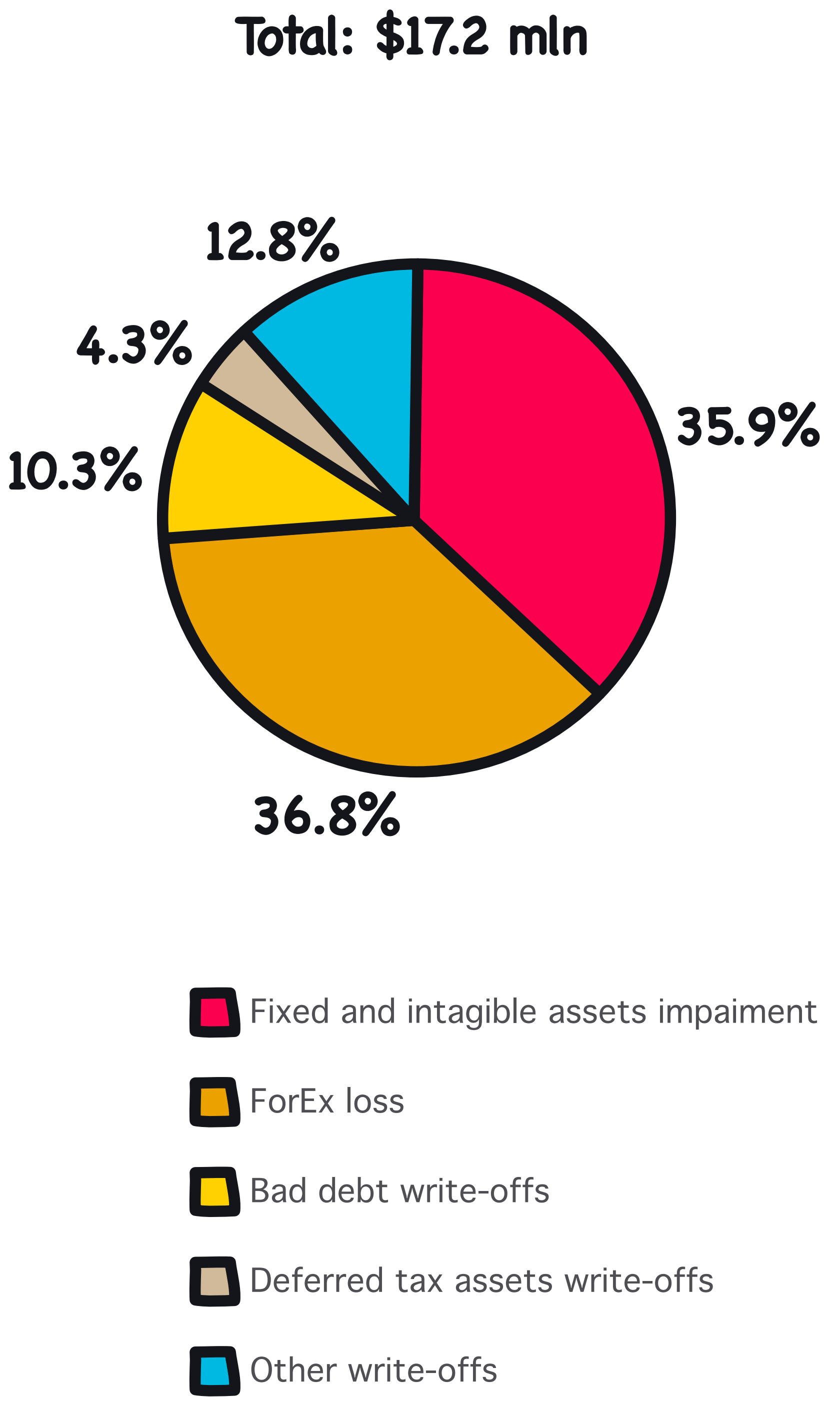
The Group's financial 2008 results have been materially influenced by the economic crisis that has been unfolding since second half 2008, mainly currency devaluation and economic downturn. Crisis-related losses and their impact in our EBITDA and NAT are summarized in the following table:

EBITDA and Net Profit (Before the estimate effect of economic crisis)

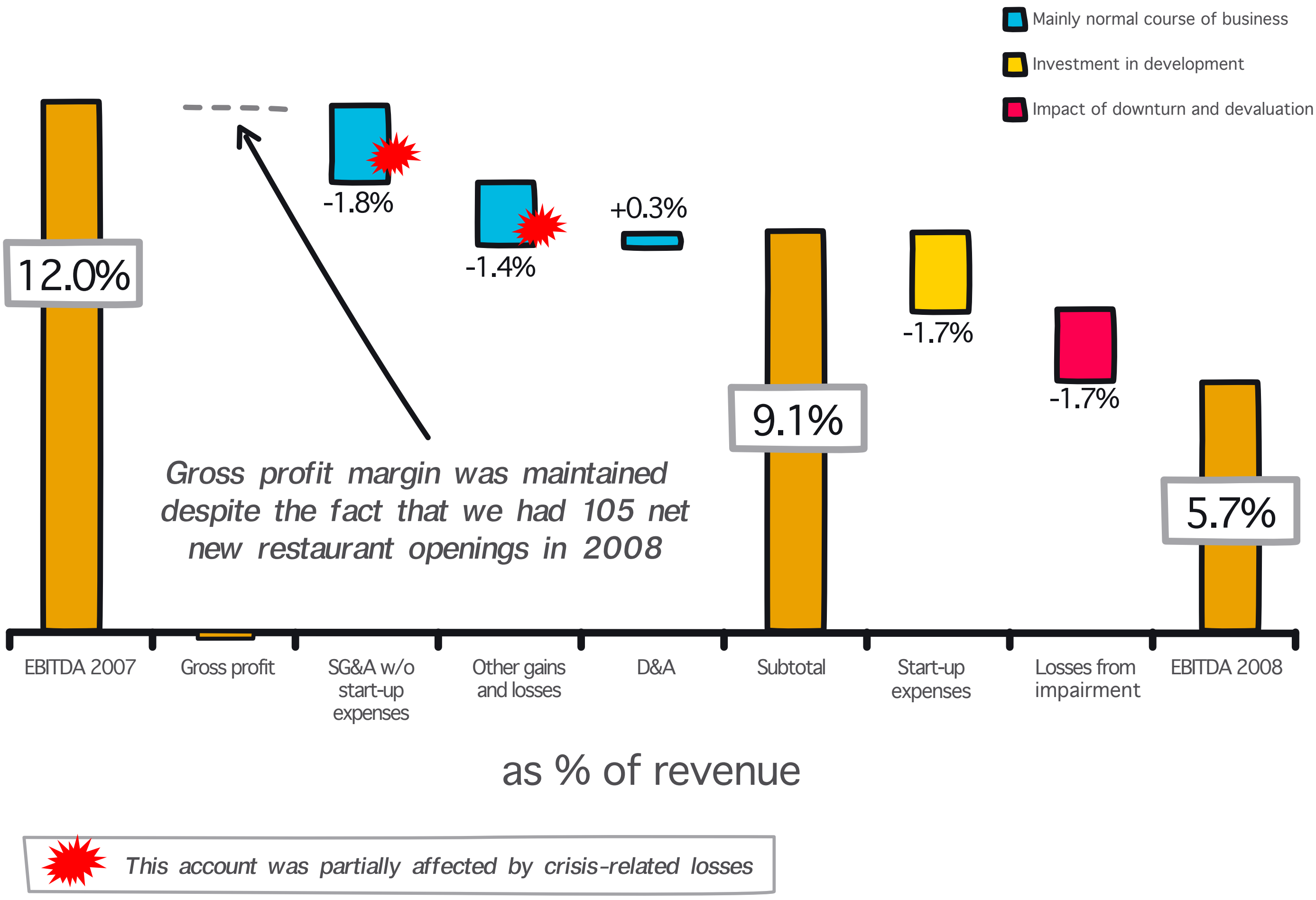
		EBITDA (US$ mln)	***Net (Loss)/Profit (US$ mln)***
IFRS 2008 figure		***19.4***	***(15.2)***
Fixed and intangible assets impairment	(+)	5.9	6.4[1]
Foreign exchange loss	(+)	(0.4)[2]	6.3[3]
Bad debt write-offs	(+)	1.8	1.8
Deferred tax assets write-offs	(+)	-	0.7
Other write-offs	(+)	2.0	2.0
2008 figures (Before the estimate effect of economic crisis)		***28.7***	***2.0***

[1] Includes impairment of goodwill; [2] Foreign exchange gain from operating activities, net (see IFRS 2008 for details); [3] Includes foreign exchange gain from operating activities, net

Crisis-related write-offs and losses (US$ mln)



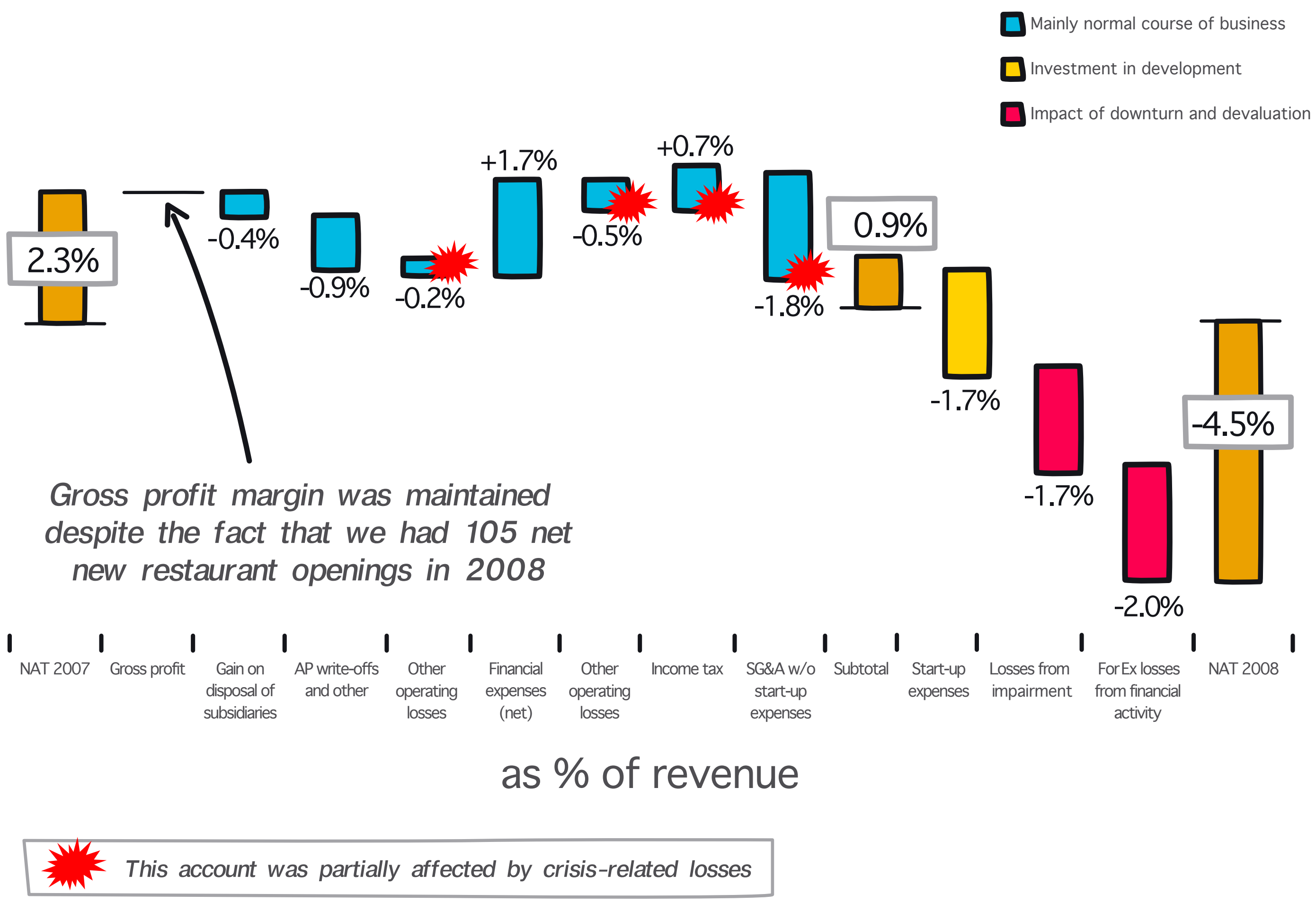
2008 EBITDA margin Walk-forward



Source: Rosinter Restaurants' 2008 IFRS statements

The Walk-forward graphs for EBITDA and NAT ("Net (loss)/profit for the year") below have been prepared based on Consolidated financial statements figures for the years ended 31 December 2007 and 2008, and provide a high level comparison of the main factors affecting the evolution of EBITDA and NAT margins from 2007 to 2008 levels.

2008 NAT margin Walk-forward



Source: Rosinter Restaurants' 2008 IFRS statements

The Walk-forward graphs for EBITDA and NAT ("Net (loss)/profit for the year") below have been prepared based on Consolidated financial statements figures for the years ended 31 December 2007 and 2008, and provide a high level comparison of the main factors affecting the evolution of EBITDA and NAT margins from 2007 to 2008 levels.

Key Financial Indicators

EBITDA and Adjusted EBITDA

Since 2008, the Group has been using a new measure for calculating Adjusted EBITDA, i.e., the EBITDA generated by the consolidated operations of the Group before Start-up expenses for new restaurants, as a measure to track improvement in overall recurrent operational profitability. To obtain the Adjusted EBITDA we add to EBITDA Start-up expenses for new restaurants which are related primarily to the amount of stores opened in a given year and in management's opinion are related mainly to revenue growth in future periods.

EBITDA and adjusted EBITDA calculation (unaudited)[1]

(US$ thousands)	*Year Ended 31 December 2008*	*Year Ended 31 December 2007*	*Year-on-year change (%)*
Profit from operating activities	6,642	22,677	(70.7%)
Depreciation and amortization	12,780	9,197	39.0%
Restated EBITDA[2]	***19,422***	***31,874***	***(39.1%)***
EBITDA Margin, %	*5.7%*	*12.0%*	
Start-up expenses for new restaurants[3]	12,415	5,117	142.6%
Adjusted EBITDA	***31,837***	***36,991***	***(13.9%)***
Adjusted EBITDA Margin, %	*9.3%*	*14.0%*	

(1) This document 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 amortisation on our operating performance. The assets of our business that are being depreciated or amortised will have to be replaced in the future and such depreciation and amortisation 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 for demonstrative purposes. 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) Since 2009 the Group is calculating EBITDA adding back Depreciation and Amortization to Profit from Operating activities, without adding back any Other gain or Other Losses component which in previous years would haven been classified as non-recurrent.

(3) To obtain the Adjusted EBITDA we add to EBITDA Start-up expenses for new restaurants, the non-capitalized capital expenditures which relate to development of our new restaurants, and which in management's opinion are related mainly to revenue growth in future periods.

Results of Operations for the Years Ended 31 December 2008 and 2007

The following table sets out our income statement for the years ended 31 December 2008 and 2007:

(US$ thousands)	Year ended 31 December 2008	Percentage of total revenue	Year ended 31 December 2007*	Percentage of total revenue	Year-on-year change (%)
Revenue	**341,108**	**100.0%**	**265,069**	**100.0%**	**28.7%**
Cost of sales	(216,641)	(63.5%)	(168,237)	(63.5%)	28.8%
Gross profit	**124,467**	**36.5%**	**96,832**	**36.5%**	**28.5%**
Selling, general and administrative expenses	(106,941)	(31.4%)	(73,826)	(27.9%)	44.9%
Other gains	1,969	0.6%	5,268	2.0%	(62.6%)
Other losses	(7,555)	(2.2%)	(6,326)	(2.4%)	19.4%
Foreign exchange gains from operating activities, net	385	0.1%	729	0.3%	(47.2%)
Profit from operating activities before impairment	**12,325**	**3.6%**	**22,677**	**8.6%**	**45.6%**
Losses from impairment of operating assets	(5,683)	(1.7%)	–	0.0%	–
Profit from operating activities after impairment	**6,642**	**1.9%**	**22,677**	**8.6%**	**(70.7%)**
Financial income	1,583	0.5%	1,385	0.5%	14.3%
Financial expense	(12,036)	(3.5%)	(13,905)	(5.2%)	(13.4%)
Foreign exchange losses from financial activities, net	(6,711)	(2.0%)	–	0.0%	–
Share of (losses)/profits of joint venture and associates	(1,279)	(0.4%)	41	0.0%	(3219.5%)
Losses from impairment of goodwill	(452)	(0.1%)	–	0.0%	–
(Loss)/Profit before income tax	**(12,253)**	**3.6%**	**10,198**	**3.8%**	**220.2%**
Income tax expense	(2,953)	(0.9%)	(4,232)	(1.6%)	(30.2%)
Net (loss)/profit for the year	**(15,206)**	**(4.5%)**	**5,966**	**2.3%**	**(354.9%)**
(Losses)/earnings per share, basic and diluted, US dollars	**(1.28)**		**0.53**		**(341.5%)**

** Restated (please see IFRS 2008)*

Revenues

For the year ended 31 December 2008, the Group's total revenue increased by 28.79% to US$341,108 thousand from US$265,069 thousand for the year ended 31 December 2007. Revenue represents the total amount of sales of the Group (less discounts and VAT).

Revenue for the years ended 31 December 2008 and 2007 consisted of the following:

(US$ thousands)	Year ended 31 December 2008	Percentage of total revenue	Year ended 31 December 2007	Percentage of total revenue	Year-on-year change (%)
Revenue from restaurants	302,079	88.6%	237,195	89.5%	27.4%
Revenue from canteens	12,206	3.6%	6,547	2.5%	86.4%
Franchise revenue	8,730	2.6%	5,871	2.2%	48.7%
Sublease services and other services	5,267	1.5%	4,083	1.5%	29.0%
Sales of semi-finished products to franchisees	3,984	1.2%	4,764	1.8%	(16.4%)
Other services	8,842	2.6%	6,609	2.5%	33.8%
Total revenue	**341,108**	**100%**	**265,069**	**100%**	**28.7%**

For the year ended 31 December 2008, revenue from restaurants increased by 27.4% to US$302,079 thousand from US$237,195 thousand for the year ended 31 December 2007. This increase is mainly a result of the increase in the number of corporate restaurants to 263 from 169, the increase in the guest traffic and average check amount. The Same Store Sales Growth ("SSSG") in U.S. dollar terms in 2008 was 17.2% resulting from a 3.2% increase in same-store transactions and a 13.6% increase in same-store average check as compared with 2007. In national currency terms, the increase in Same Store Sales in 2008 amounted to 13.3%, while increase in average check amounted to 9.9%.

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 56 restaurants selected for SSSG analysis therefore only include restaurants that were opened on or before 1 January 2006 and uninterruptedly operated at least until 31 December 2008.

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 2007 and 2008, translated into U.S. dollars at the average of the official exchange rates quoted by the Central Bank of each relevant country in the relevant year.

For the year ended 31 December 2008, revenue from corporate canteens increased by 86.4% to US$12,206 thousand from US$6,547 thousand for the year ended 31 December 2007. This increase is mainly a result of the increase in the revenue of existing nine canteens and the opening of five new ones in 2008.

For the year ended 31 December 2008, franchise revenue increased by 48.7% to US$8,730 thousand from US$5,871 thousand for the year ended 31 December 2007, as a result of the increase in the revenue of existing 63 franchisees and the net opening of 17 new franchise outlets in 2008. In fourth quarter 2008, six franchised outlets were acquired and transferred to the corporate pool leading to a net increase of franchise count to 11.

For the year ended 31 December 2008, revenue from sublease services and other services increased by 29.0% to US$5,267 thousand from US$4,083 thousand for the year ended 31 December 2007, consistent with the increase in the number of premises granted on sublease.

For the year ended 31 December 2008, sales of semi-finished products to franchisees declined by 16.4% to US$3,984 thousand from US$4,764 thousand for the year ended 31 December 2007. The drop was mainly a net effect of a US$521 thousand increase in this account in Moscow due to the growth in the number of franchisees and a US$1,301 thousand decrease due to the acquisition of our eight franchised restaurants in Omsk and their transfer to the corporate pool.

Cost of Sales

For the year ended 31 December 2008, the Group's cost of sales increased by 28.8% to US$216,641 thousand from US$168,237 thousand for the year ended 31 December 2007. As a percentage of revenue, the cost of sales remained flat over the same period.

The following expenses were included in our cost of sales for the years ended 31 December 2008 and 2007, along with their percentage of revenue:

(US$ thousands)	Year ended 31 December 2008	Percentage of total revenue	Year ended 31 December 2007	Percentage of total revenue	Year-on-year change (%)
Food and beverages	87,101	25.5%	72,559	27.4%	20.0%
Payroll and related taxes	69,416	20.4%	52,435	19.8%	32.4%
Rent	40,677	11.9%	29,066	11.0%	39.9%
Restaurant equipment depreciation	10,149	3.0%	7,009	2.6%	44.8%
Utilities	8,617	2.5%	6,565	2.5%	31.3%
Other	681	0.2%	603	0.2%	12.9%
Total cost of sales	***216,641***	***63.5%***	***168,237***	***63.5%***	***28.8%***

For the year ended 31 December 2008, the cost of food and beverages decreased by 1.9% as a percentage of revenue as compared with the year ended 31 December 2007 as a combined result of menu price increases during the year and several efficiency initiatives that continued improving our food and beverages purchasing terms during 2008. Real time access to information on sales, cost of sales, purchase prices by ingredient and to inventory information across our key markets, due to the introduction of our back-of-the-house system Crunchtime! in 2008, allowed us to make additional progress in increasing the efficiency of our approved product list and to make additional steps in consolidating our Moscow and Russian regions purchases. This led to a greater leverage when negotiating prices with our suppliers.

For the year ended 31 December 2008, payroll and related taxes increased by 0.6% as a percentage of revenue as compared with the year ended 31 December 2007 mainly as a result of salary increases for staff and management and as a result of the increased share of new corporate restaurants in our portfolio (94 of a total of 263 by end year), since a new restaurant's revenue reaches a mature level, on our estimates, in 12 to 18 month after opening.

For the year ended 31 December 2008, rent increased by 0.9% as a percentage of revenue as compared with the year ended 31 December 2007 due mainly to the increased share of new corporate restaurants in our portfolio (94 of a total of 263 by end year). New restaurants do not contribute immediately fully to our revenue while most of them have a fixed rent rate amount.

For the year ended 31 December 2008, restaurant equipment depreciation increased by 0.4% as a percentage of revenue as compared with the year ended 31 December 2007. This increase was a result of growth of our corporate restaurant network in 2008.

Gross Profit

For the year ended 31 December 2008, the Group's gross profit increased by 28.5% to US$124,467 thousand from US$96,832 thousand for the year ended 31 December in 2007. For the year ended 31 December 2008 gross profit margin was 36.5% and remained flat as compared with the year ended 31 December 2007 since increase in total revenue and increase in cost of sales were almost proportional.

Selling, General and Administrative (SG&A) Expenses

For the year ended 31 December 2008, the Group's SG&A expenses increased by 44.9% to US$106,941 thousand in 2008 from US$73,826 thousand in 2007. As a percentage of total revenues, SG&A expenses increased to 31.3% for the year ended 31 December 2008 from 27.9% for the year ended 31 December 2007.

The table below shows the composition of SG&A expenses for the years ended 31 December 2008 and 2007:

(US$ thousands)	*Year ended 31 December 2008*	*Percentage of total revenue*	*Year ended 31 December 2007*	*Percentage of total revenue*	*Year-on-year change (%)*
Payroll and related taxes	31,614	9.3%	24,137	9.1%	31.0%
Start-up expenses for new restaurants	12,415	3.6%	5,117	1.9%	142.6%
Advertising	10,415	3.1%	9,031	3.4%	15.3%
Other services	7,611	2.2%	3,345	1.3%	127.5%
Materials	7,309	2.1%	5,258	2.0%	39.0%
Rent	6,848	2.0%	5,092	1.9%	34.5%
Laundry and sanitary control	5,653	1.7%	3,262	1.2%	73.3%
Maintenance and repair services	5,457	1.6%	4,095	1.5%	33.3%
Transportation services	2,719	0.8%	1,858	0.7%	46.3%
Depreciation and amortization	2,631	0.8%	2,188	0.8%	20.2%
Bank services	2,514	0.7%	1,650	0.6%	52.4%
Financial and legal services	1,958	0.6%	1,637	0.6%	19.6%
Franchising fee	1,742	0.5%	1,700	0.6%	2.5%
Increase/(decrease) in the allowance for impairment of advances paid, taxes recoverable and receivables	1,391	0.4%	(110)	0.0%	(1364.5%)
Utilities	1,259	0.4%	826	0.3%	52.4%
Other expenses	5,405	1.6%	4,740	1.8%	14.0%
Total selling, general and administrative expenses	***106,941***	***31.4%***	***73,826***	***27.9%***	***44.9%***

For the year ended 31 December 2008, expenses on payroll and related taxes remained almost flat as a percentage of total revenue as compared with the year ended 31 December 2007. We note that in the second half of 2007 we had made significant investments in human capital and filled up staff vacancies with highly skilled personnel. The growth of payroll and related taxes for the year ended 31 December 2008 in absolute terms amounted to 31.0% and was consistent with the requirements of the business platform needed for a business of our size and growth potential.

For the year ended 31 December 2008, start-up expenses for new restaurants increased by 1.7% as a percentage of total revenue and by 142.6% in absolute terms to US$12,415 thousand as compared with US$5,117 thousand for the year ended 31 December 2007. This increase arose from the increased number of net restaurant openings in 2008 in Moscow, Russian regions, CIS and Europe, with 21, 47, 14 and 12 new corporate restaurants respectively. The start-up expenses for new restaurants in 2008 included rent payments during construction and staff related expenses.

For the year ended 31 December 2008, advertising expenses decreased by 0.3% as a percentage of total revenue as compared with the year ended 31 December 2007. This decrease was mainly due to the fact that in 2008 we reduced substantially our expenses in TV in comparison with 2007, and switched to outdoor advertising, which constituted around 60% in our marketing spending in 2008 and was more cost-effective in terms of its impact on customers' traffic.

For the year ended 31 December 2008, expenses on other services increased by 0.9% as a percentage of total revenue as compared with the year ended 31 December 2007 mainly due to an increase in staff recruitment services, licensing and certification of new restaurants (Microsoft and Crunchtime!), and outsourcing of IT and security services.

For the year ended 31 December 2008, expenses on laundry and sanitary controls increased by 0.5% as a percentage of total revenue as compared with the year ended 31 December 2007 mainly due to new restaurant openings and the complete outsourcing of such services that we had begun in November 2007 in most of some our restaurants.

For the year ended 31 December 2008, expenses on maintenance and repair services increased by 0.1% as a percentage of total revenue and by 33.3% in absolute terms as compared with the year ended 31 December 2007. The increase was consistent with the normal course of business and was due to a rise in expenses relating to the expansion or restyling of the interior of certain Moscow and regional restaurants.

Other Gains and Losses

Other gains in the amount of US$1,969 thousand in 2008 resulted mainly from write-off of accounts payable and other miscellaneous gains (Please, refer to Note 25 in the Financial Statements).

Other losses in the amount of US$7,555 thousand incurred in 2008 resulted mainly from the closure of certain restaurants and write-offs related to this, including US$2,957 thousand loss on disposal of non-current assets. (Please, refer to Note 25 in the Financial Statements).

Profit from Operating Activities before Impairment

For the year ended 31 December 2008, profit from operating activities before impairment decreased by 45.6% to US$12,325 thousand from US$22,677 thousand for the year ended 31 December 2007. This decrease was mainly a result of a 142.6% increase of start-up expenses for new restaurants (a component of SG&A costs) for the year ended 31 December 2008.

Losses from Impairment of Assets

The Group's loss from impairment of assets for the year ended 31 December 2008 amounted to US$5,683 thousand and consisted mainly of impairment of property and equipment and intangible assets. (Please, refer to Note 27 in the Financial Statements).

Profit from Operating Activities after Impairment

For the year ended 31 December 2008, profit from operating activities after impairment decreased by 70.7% to US$6,642 thousand from US$22,677 thousand for the year ended 31 December 2007. Operating profit margin after impairment decreased to 1.9% for the year ended 31 December 2008 from 8.6% for the year ended 31 December 2007. This decrease was mainly a result of a 1.7% increase of start-up expenses for new restaurants (SG&A costs) and losses from impairment of assets in amount of US$5,683 thousand, as explained above.

Financial Income and Expense

For the year ended 31 December 2008, the Group's total financial income, which is interest income, increased by 14.3% to US$1,583 thousand from US$1,385 thousand for the year ended 31 December 2007, generated by short-term financial investments made by the group.

For the year ended 31 December 2008, the Group's total financial expenses decreased by 13.4% to US$12,036 thousand from US$13,905 thousand for the year ended 31 December 2007. The financial expenses are composed of (i) interest expense and (ii) increase in amounts due to partners. For the year ended 31 December 2008, the Group's interest expense increased by 44.0% to US$9,715 thousand from US$6,748 thousand for the year ended 31 December 2007 due to the increase in amount of debt and its cost. A decrease of 57.7% in amounts due to partners to US$2,321 thousand in 2008 from US$5,490 thousand in 2007 was mainly due to the termination of our profit sharing agreements in Moscow and the reduction of our partners' stakes in our Kazakhstan and Belarus businesses during 2H 2007, and to the additional acquisition of some of our regional partners' stakes.

Foreign Exchange Losses from Financial Activities, Net

For the year ended 31 December 2008, the Group experienced a net foreign exchange loss from financial activities of US$6,711 thousand in 2008, resulting mainly from devaluation of Russian Rouble and Ukrainian Hryvnia in the fourth quarter of 2008 and its impact on the Rouble value of the Group's U.S.-dollar-denominated debt.

(Loss)/Profit before Income Tax

For the year ended 31 December 2008, loss before income tax amounted to US$12,253 thousand versus profit before income tax of US$10,198 thousand in 2007. The loss primarily resulted from the 70.7% decrease in the Group's operating profit in 2008, foreign exchange losses from financial activities as discussed in the previous paragraphs, and the share of joint venture's and associates' losses of US$1,279 thousand.

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 2007 and 2008. The income tax charge is based on the taxable profit of each Group's 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 31 December 2008, the Group incurred a total income tax expense of US$2,953 thousand, which was 30.2% lower than for the year ended 31 December 2007 of US$4,232. This was determined by the following factors: an increase of the income tax in the amount of US$1,173 thousand in 2008 due to an increase in taxable profit; an increase in deferred tax benefit in the amount of US$1,647 thousand in 2008; and a decrease in tax on dividend of US$805 thousand in 2008. (Please, refer to Note 18 in the Financial Statements).

Net (Loss)/Profit for the Year

As a result of the above, for the year ended 31 December 2008, net loss amounted to US$15,206 versus a net profit of US$5,966 thousand for the year ended 31 December 2007.

Liquidity and Capital Resources

In addition to financing its existing operations, the Group's liquidity needs arose in the period under review principally from the need to finance its development, mainly the construction and opening of restaurants, acquisition of restaurants and acquisition of additional stakes in existing partnerships. 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 and bank borrowings.

(US$ thousands)	*Year Ended 31 December 2008*	*Year Ended 31 December 2007*	*Year-on-year change (%)*
Cash and cash equivalents at beginning of year	***8,037***	***6,223***	
Net cash flows from operating activities	27,824	26,468	5.1%
Net cash flows used in investing activities	(48,565)	(49,634)	(2.2%)
Net cash flows from financing activities	18,822	23,438	(19.7%)
Effect of exchange rate changes on cash and cash equivalents	(184)	1,542	(111.9%)
Net (decrease)/increase in cash and cash equivalents	(2,103)	1,814	(215.9%)
Cash and cash equivalents at end of year	***5,934***	***8,037***	

Capital Expenditures

The Group allocated US$64,035 thousand in 2008 to capital expenditures and investments, including bridge loans as part of the acquisition of our Samara and Omsk partners' stakes and our franchise restaurants in Omsk, and US$25,383 thousand in 2007. Both figures exclude start-up expenses for new restaurants, which amounted to US$12,415 thousand in 2008 and US$5,117 thousand in 2007.

Operating Activities. The Group's net cash flow provided by operating activities increased by 5.1% to US$27,824 thousand for the year ended 31 December 2008 from US$26,468 thousand for the year ended 31 December 2007. If we adjust the cash flow provided by operating activities, adding back start-up expenses for new restaurants, which had substantial impact in the net cash from operating activities, cash flow from operating activities before start-up expenses for new restaurants increased by 27.4% to US$40,239 thousand in 2008 from US$31,585 thousand in 2007, which is in line with the growth of our revenue of 28.7% in 2008, when compared with the year ended 31 December 2007.

Investing Activities. The Group's net cash flow used in investing activities decreased by 2.2% to US$48,565 thousand for the year ended 31 December 2008 from US$49,634 thousand for the year ended 31 December 2007. The most significant investing activities of the Group for these periods consisted of the acquisition of property and equipment and intangible assets and loans issued to related and third parties. In 2008, we issued bridge loans to CJSC Preobrazhenie, a related party, as a first step in the acquisition of franchise restaurants in Omsk and our partners' stakes in Samara and Omsk until the acquired legal entities could be transformed from limited liability companies to closed joint stock companies and transferred to the Group. With respect to the acquisition of property and equipment and intangible assets, the Group spent a net US$39,861 thousand in 2008 and US$25,344 thousand in 2007. 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.

Financing Activities. The Group's net cash flow provided by financing activities decreased by 19.7% to US$18,822 thousand for the year ended 31 December 2008 from US$23,438 thousand for the year ended 31 December 2007. This was mainly a net effect of (i) proceeds from bank loans in amount of US$139,930 thousand, (ii) repayment of bank loans in amount of US$106,036 thousand, (iii) bank interest paid in amount of US$8,835 thousand, and (iv) amounts paid to partners of US$6,685 thousand.

Indebtedness

The table below shows the composition of our debt as at 31 December:

	2008	2007
Long-term debt (excluding current portion)	***3,688***	***278***
Short-term debt (including current portion of long-term debt)	***79,014***	***56,965***
Current portion of long-term debt	44,721	5,284
Short-term debt (excluding current portion)	34,293	51,681
Total Debt	***82,702***	***57,243***

The Group aims to maintain a substantial portion of its debt of long-term nature. In order to achieve such objective it has accessed the Russian bond capital markets since 2002 and built long term relationship with first class bank institutions in Russia. However, given the characteristics of the local capital market, in which bonds issues tend to provide bondholders with put options, as at 31 December 2008 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 31 December 2008, please refer to notes 2, 16, 20 and 29 in the financial statements.

OJSC Rosinter Restaurants Holding

Consolidated Financial Statements

For the year ended December 31, 2008

TABLE OF CONTENTS

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld.1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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 2008 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 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

10 June 2009

Ernst & Young LLC

Consolidated Balance Sheet at December 31, 2008

(All amounts are in thousands of US dollars)

	Notes	December 31, 2008	December 31, 2007
ASSETS			
Non-current assets			
Property and equipment	7	85,942	80,373
Intangible assets	6	14,683	7,105
Goodwill	5	4,808	739
Investments in joint ventures and associates	8	1,490	469
Long-term loans due from related parties	15	875	368
Long-term advances to related parties	15	8,133	–
Long-term receivables due from related parties	15	1,120	–
Deferred income tax asset	18	4,335	3,894
Other non-current assets		4,996	1,845
		126,382	**94,793**
Current assets			
Inventories	9	6,459	6,232
Advances paid	10	5,458	5,366
VAT and other taxes recoverable		4,863	4,751
Trade and other receivables	11	3,495	2,988
Short-term loans		171	410
Short-term loans due from related parties	15	2,702	18,572
Receivables from related parties	15	2,105	6,783
Cash and cash equivalents	12	5,934	8,037
		31,187	**53,139**
TOTAL ASSETS		**157,569**	**147,932**
EQUITY AND LIABILITIES			
Share capital	13	71,847	71,847
Additional paid-in capital	13	14,886	14,886
Share premium	13	46,698	46,698
Treasury shares	13	(8,608)	(8,608)
Accumulated losses		(108,733)	(93,543)
Translation difference		1,267	4,002
TOTAL PARENT SHAREHOLDERS EQUITY		**17,357**	**35,282**
Minority interest		**1,344**	–
TOTAL EQUITY		**18,701**	**35,282**
Non-current liabilities			
Long-term debt due to related parties	15	814	1,046
Long-term debt	16	3,688	278
Finance lease liabilities	17	143	334
Long-term liabilities to partners	14	5,187	–
Deferred income		2,282	–
Deferred income tax liabilities	18	2,727	1,592
		14,841	**3,250**
Current liabilities			
Trade and other payables	19	36,499	33,516
Short-term debt	20	44,721	5,284
Current portion of long-term debt	20	34,293	51,681
Short-term debt due to related parties	15	–	233
Payables to related parties	15	1,945	2,827
Income tax payable		1,254	1,418
Current portion of finance lease liabilities	17	369	363
Current liabilities to partners	14	4,338	14,078
Deferred income		608	–
		124,027	**109,400**
TOTAL EQUITY AND LIABILITIES		**157,569**	**147,932**

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

Consolidated Income Statement
For the year ended December 31, 2008

(all amounts are in thousands of US dollars, except for earnings per share)

	Notes	2008	2007 Restated*
Revenue	21	**341,108**	**265,069**
Cost of sales	22	(216,641)	(168,237)
Gross profit		**124,467**	**96,832**
Selling, general and administrative expenses	23	(106,941)	(73,826)
Other gains	25	1,969	5,268
Other losses	25	(7,555)	(6,326)
Foreign exchange gains from operating activities, net		385	729
Profit from operating activities before impairment		**12,325**	**22,677**
Losses from impairment of operating assets	27	(5,683)	–
Profit from operating activities after impairment		**6,642**	**22,677**
Financial income	26	1,583	1,385
Financial expense	26	(12,036)	(13,905)
Foreign exchange losses from financial activities, net		(6,711)	–
Share of (losses)/profits of joint venture and associates**	8	(1,279)	41
Losses from impairment of goodwill	27	(452)	–
(Loss)/Profit before income tax		**(12,253)**	**10,198**
Income tax expense	18	(2,953)	(4,232)
Net (loss)/profit for the year		**(15,206)**	**5,966**
Attributable to:			
Equity holders of the parent entity		(15,190)	5,966
Minority interests		(16)	–
(Losses)/earnings per share, basic and diluted, US dollars	13	**(1.28)**	**0.53**

* *Certain amounts shown here do not correspond to the 2007 consolidated financial statements and reflect adjustments made as detailed in Note 3.*

** *The Group reclassified share of profits of joint ventures and associates from other gains to a separate line as compared to the presentation in the 2007 consolidated financial statements.*

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

Consolidated Cash Flow Statement

(All amounts are in thousands of US dollars)

	Notes	2008	2007**
Cash flow from operating activities			
Net (loss)/profit for the year		(15,206)	5,966
Adjustments to reconcile net (loss)/profit to net cash provided by operating activities:			
Depreciation and amortisation		12,780	9,197
Foreign exchange losses/(gains), net		6,326	(729)
Financial income	27	(1,583)	(1,385)
Financial expense	27	12,036	13,905
Allowance for impairment of advances paid, taxes recoverable and receivables	23	1,391	(110)
Allowance for impairment of inventories		(104)	187
Loss on disposal of non-current assets	25	2,957	1,660
Impairment of assets	27	6,135	–
Share of joint venture’s and associates’ results	8	1,279	(41)
Deferred income tax benefit	18	(2,097)	(450)
Gain on disposal of subsidiaries	25	–	(988)
		23,914	***27,212***
Changes in operating assets and liabilities:			
Increase in inventories		(1,277)	(2,581)
Increase in advances, taxes recoverable, receivables and other non-current assets		(7,258)	(3,005)
Decrease/(increase) in receivables from/payables to related parties, net		1,630	(5,887)
Increase in trade and other payables		10,815	10,729
Net cash flows from operating activities		***27,824***	***26,468***
Cash flows from investing activities			
Issuance of loans to third parties		(2,027)	(2,394)
Proceeds from repayment of loans issued to third parties		2,111	2,012
Loans issued to related parties		(5,289)	(27,982)
Proceeds from repayment of loans issued to related parties		19,528	11,551
Purchases of property and equipment		(36,772)	(24,627)
Proceeds from disposal of property and equipment		347	476
Purchase of intangible assets		(3,436)	(1,193)
Acquisition of subsidiaries, net of cash acquired	5	(12,381)	(39)
Prepayments to acquire subsidiaries		(10,428)	–
Proceeds from sale of shares in subsidiaries		1,634	–
Contribution to a joint venture	8	(2,999)	–
Interest received from loans issued to related parties		1,082	498
Interest received from bank deposit		65	629
Proceeds from disposal of intangible assets		–	43
Reacquisition of treasury shares	13	–	(8,608)
Net cash flows used in investing activities		***(48,565)***	***(49,634)***

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 dollars)

	Notes	2008	2007**
Cash flows from financing activities			
Proceeds from issuance of share capital		–	60,000
Repayment of related party loans		(300)	(1,064)
Proceeds from partners	14	1,706	4,570
Amounts paid to partners	14	(6,685)	(15,041)
Payment to acquire ownership interest in subsidiaries from partners		(199)	(1,667)
Proceeds from bank loans *		139,930	66,501
Repayment of bank loans *		(106,036)	(82,398)
Bank interest paid		(8,835)	(6,816)
Repayment of lease obligations		(759)	(534)
Interest paid to related parties		–	(476)
Proceeds from cash capital contribution	13	–	363
Net cash flows from financing activities		***18,822***	***23,438***
Effect of exchange rate changes on cash and cash equivalents		(184)	1,542
Net (decrease)/ increase in cash and cash equivalents		(2,103)	1,814
Cash and cash equivalents at beginning of the year		***8,037***	***6,223***
Cash and cash equivalents at end of the year		***5,934***	***8,037***
Supplementary cash flow information:			
Cash paid for income tax		4,625	3,939
Non-cash related party loan payable settlement		–	(912)

* *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 Group reclassified share of joint venture's and associates' results from increase in advances, taxes recoverable, receivables and other non-current assets to a separate line as compared to the presentation in the 2007 consolidated financial statements.*

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

Consolidated Statement of Changes in Equity

(All amounts are in thousands of US dollars)

	Attributable to equity holders of the parent entity								
	Share capital	Additional paid-in capital	Share premium	Treasury shares	Accumulated losses	Translation difference	Parent shareholder's equity	Minority interests	Total Equity
At January 1, 2007	***58,545***	***14,523***	–	–	***(99,509)***	***2,593***	***(23,848)***	–	***(23,848)***
Effect of exchange rate changes	–	–	–	–	–	1,409	***1,409***	–	***1,409***
Total income for the year recognised directly in equity	–	–	–	–	–	***1,409***	***1,409***	–	***1,409***
Net profit	–	–	–	–	5,966	–	***5,966***	–	***5,966***
Total income for the year	–	–	–	–	***5,966***	–	***5,966***	–	***5,966***
Issue of share capital, net of issuance cost (Note 13)	13,302	–	46,698	–	–	–	***60,000***	–	***60,000***
Additional paid-in capital contribution (Note 13)	–	363	–	–	–	–	***363***	–	***363***
Treasury shares bought back (Note 13)	–	–	–	(8,608)	–	–	***(8,608)***	–	***(8,608)***
At December 31, 2007	***71,847***	***14,886***	***46,698***	***(8,608)***	***(93,543)***	***4,002***	***35,282***	–	***35,282***
Effect of exchange rate changes	–	–	–	–	–	(2,735)	***(2,735)***	(322)	***(3,057)***
Minority interests arising on acquisition of subsidiaries (Note 5)	–	–	–	–	–	–		1,682	***1,682***
Total expense for the year recognised directly in equity	–	–	–	–	–	***(2,735)***	***(2,735)***	***1,360***	***(1,375)***
Net loss	–	–	–	–	(15,190)	–	***(15,190)***	(16)	***(15,206)***
Total expense for the year	–	–	–	–	***(15,190)***	–	***(15,190)***	***(16)***	***(15,206)***
At December 31, 2008	***71,847***	***14,886***	***46,698***	***(8,608)***	***(108,733)***	***1,267***	***17,357***	***1,344***	***18,701***

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

Notes to the consolidated financial statements December 31, 2008 and 2007

(All amounts are in thousands of US dollars, 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, 2008, 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" and "1-2-3 Café".
- 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 canteens 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, Poland and Hungary. The Group also has exclusive development rights and/or registered trademarks in Azerbaijan, Kyrgyzstan, Uzbekistan, Moldova, Lithuania, Austria, 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 and afterwards on MICEX.

The consolidated financial statements of the Company for the year ended December 31, 2008 were authorised for issue in accordance with a resolution of the CEO on June 8, 2009.

The Group derives revenue in the territory of Russia and other CIS countries, Baltic States and other European countries. For the years ended December 31, 2008 and 2007, the revenues from the Russian market were approximately 81% and 79% of total revenues, respectively. The second largest market was Kazakhstan with 5% and 6% of total revenues for 2008 and 2007, respectively.

As of December 31, 2008 and 2007, the Group employed approximately 8,200 and 7,700 people, respectively.

1. Corporate Information (continued)

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

Entity	Country of incorporation	2008	2007
		% Ownership	% Ownership
Rosinter Restaurants LLC	Russia	98.70%	98.70%
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%	100.00%
Rosinter Restaurants Ekaterinburg LLC	Russia	51.00%	51.00%
BelRosInter LLC	Belarus	100.00%	58.59%
Rosinter Almaty LLP	Kazakhstan	90.00%	51.00%
Rosinter Ukraine LLC	Ukraine	51.00%	51.00%
RIGS Services Limited	Cyprus	100.00%	100.00%
Rosinter Czech Republic s.r.o.	The Czech Republic	100.00%	100.00%
Rosinter Polska Sp. z o.o.	Poland	100.00%	100.00%
Rosinter Hungary Kft	Hungary	100.00%	100.00%

During 2008 and 2007, the Group opened a net number of 94 and 42 new restaurants, respectively. In addition, the Group continues to develop a casual dining restaurant business on a franchise agreement basis. The Group opened a net number of 11 and 16 franchise restaurants in Moscow city, Moscow region, Russian regions and Baltic Countries in 2008 and 2007, respectively. As of December 31, 2008, the Group operated 337 restaurants.

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, 2008 of $124,027 exceeded its current assets by $92,840. The net current liability position primarily results from bonds payable in the total amount of $33,974 with a maturity date of November 26, 2010 and bank loans in the amount of $44,721. The bonds were treated as short-term debt due to an early redemption option exercisable in May 2009 (see Note 16).

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

- Out of $44,721 short-term debt, the Group has repaid $5,000 to Credit Europe Bank in March 2009, and extended $39,619 of short-term bank loans to the dates that are past the bonds put option date. By extending the loans to dates after the bonds' put option date the banks demonstrate confidence in the Company's financial stability. All loans that have been unsecured, remain unsecured even in the current economic circumstances. In addition, BSGV bank has recently lowered the interest rate for its loan to the Group by 1% to 6.8%.

2. Going Concern (continued)

- As of December 31, 2008, the Group's borrowings from Sberbank were $18,719. Out of the total $31,219 short-term bank loans, that have been rescheduled, $18,719 are the loans from Sberbank. $15,316 of the borrowings have been extended by Sberbank to the year 2010 (February – March, 2010) and $3,402 to October 2009. The Group has a very strong and long relationship with one of the major governmental banks – Sberbank. Sberbank is the main lender to the Group.
- The Group has just recently secured an additional loan from Sberbank in the amount of up to 950 million Russian roubles ($30,912 at the exchange rate at June 3, 2009) to cover any potential repayments of bonds in accordance with the early redemption option (refer to Note 30). The main security against this loan consists of trade marks, fixed assets of the regional companies, more than 50% of the shares of the companies whose fixed assets have been used as collateral against this loan, 99% of the shares of Moscow company Rosinter Restaurants, and 25% plus 1 share of a public company Rosinter Restaurants Holding.
- Management has introduced enhanced operational initiatives designed to improve the Group's liquidity. Actions implemented include, among others, capital expenditure process, 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. The recent economic situation has also allowed the Group to significantly lower rent expenses.
- All operational efficiency initiatives allow the Group to generate significant operating cash flows. In 2008 and 2007, the Group generated $27,824 and $26,468 of net cash from operating activities, respectively. Even under the current economic environment the Group is expecting for 2009 positive operating cash flows in the range of prior years' operating cash flows mainly due to the fact that the 116 new restaurants opened recently are mostly maturing in 2009. An additional positive impact on cash flows comes from all 2008 efficiency initiatives that start showing an impact in 2009.
- On April 17, 2009, the Group received a new credit line for approximately $2,000 from Moscow Credit Bank. This is a new bank for the Group.

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.

3. 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 Policy and Disclosures

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, 2008.

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, 2008:

- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" ("IFRIC 11")";
- IFRIC 12 "Service Concession Arrangements" ("IFRIC 12");
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Finding Requirements and their Interaction" ("IFRIC 14").

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. The interpretation has no impact on the Group as the Group has not issued such instruments.

IFRIC 12 addresses the accounting issues relating to the public-to-private service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

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. IFRIC 14 has no impact on the financial statements of the Group as no event occurred that this interpretation relates to.

3. Basis of Preparation of Financial Statements (continued)

Changes in Accounting Policy and Disclosures (continued)

The Group has also early adopted the following standards and interpretations as of January 1, 2008:

- IAS 23 "Borrowing Costs" – Revised ("IAS 23 (revised)");
- IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13").

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. The Group's previous policy was to capitalise borrowing costs on qualifying assets so there is no impact on the financial statements of the Group.

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. The Group maintains several loyalty programmes (refer to Note 4). IFRIC 13 has no specific provisions on transition. Therefore, the Group has followed IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", applying the changes retrospectively, the prior year financial information has therefore been restated.

As a result of the adoption of IFRIC 13, the following adjustments were made to the 2007 financial information:

Net decrease in revenues: $3,147

Net decrease in cost of sales: $1,771

Net increase in other gains: $1,376

Improvements to IFRSs

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has early adopted the following amendments to standards:

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the balance sheet.

IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

3. Basis of Preparation of Financial Statements (continued)

Changes in Accounting Policy and Disclosures (continued)

IAS 28 Investment in Associates: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. This amendment has no impact on the Group because it does not account for its joint ventures at fair value in accordance with IAS 39.

IAS 36 Impairment of Assets: When discounted cash flows are used to estimate ”fair value less cost to sell” additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ”value in use”. This amendment has no impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using ”value in use”.

IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Group reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

Adoption of these standards and interpretations did not have significant effects on these consolidated financial statements except for IFRIC 13.

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:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements;
- IFRS 2 “Share-based Payments” (“IFRS 2”) – Vesting Conditions and Cancellations;
- IFRS 8 “Operating Segments” (“IFRS 8’);
- 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 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items” (“IAS 39”);
- Improvements to IFRSs (except for above mentioned amendments to standards following the 2007 “Improvements to IFRS” project which were early adopted);

3. Basis of Preparation of Financial Statements (continued)

Changes in Accounting Policy and Disclosures (continued)

- IFRIC 15 "Agreement for the Construction of Real Estate" ("IFRIC 15");
- IFRIC 16 "Hedges of a Net Investment In a Foreign Operation" ("IFRIC 16");
- IFRIC 17 "Distributions of Non-cash Assets to Owners" ("IFRIC 17");
- IFRIC 18 "Transfers of Assets from Customers" ("IFRIC 18");
- Amendments to IFRS 7 "Improving Disclosures about Financial Instruments" ("Amendments to IFRS 7").

The amendments to IFRS 1 allow an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

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.

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.

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.

3. Basis of Preparation of Financial Statements (continued)

Changes in Accounting Policy and Disclosures (continued)

Amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

Improvements to IFRSs

As stated above the Group has early adopted some of the amendments to standards following the 2007 “Improvement to IFRSs” project. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

IFRS 7 Financial Instruments: Disclosures: Removal of the reference to “total interest income” as a component of finance costs.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period: Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property. Plant and Equipment: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

IAS 18 Revenue: Replacement of the term ”direct costs” with ”transaction costs” as defined in IAS 39.

IAS 19 Employee Benefits: Revised the definition of ”past service costs”, ”return on plan assets” and ”short term” and ”other long-term” employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.

IAS 27 Consolidated and Separate Financial Statements: When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

IAS 29 Financial Reporting in Hyperinflationary Economies: Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.

IAS 34 Interim Financial Reporting: Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.

3. Basis of Preparation of Financial Statements (continued)

Changes in Accounting Policy and Disclosures (continued)

IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the "fair value through profit or loss" classification after initial recognition. Removed the reference in IAS 39 to a "segment" when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

IAS 40 Investment Property: Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after July 1, 2009 with early application permitted. This interpretation should be applied prospectively. IFRIC 17 provides guidance on accounting for distributions of non-cash assets to owners. As such it provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so.

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after July 1, 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers.

3. Basis of Preparation of Financial Statements (continued)

Changes in Accounting Policy and Disclosures (continued)

Amendments to IFRS 7 were issued in March 2009 and become effective for periods beginning on or after January 1, 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed.

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.

Business Combination and Goodwill

Business combinations, including business combinations involving entities or businesses under common control, are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

4. Significant Accounting Policies and Estimates (continued)

Principles of Consolidation (continued)

Investments 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.

Interests in Joint Ventures

The Group's interest in a joint venture which is a 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.

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. All financial information presented in USD has been rounded to the nearest thousand.

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 the respective 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 currencies 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.

4. Significant Accounting Policies and Estimates (continued)

Functional and Presentation Currency (continued)

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.

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-for-sale 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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, the Group had no available-for-sale financial assets.

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

4. Significant Accounting Policies and Estimates (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For amounts due from loans and receivables carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group, if, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

4. Significant Accounting Policies and Estimates (continued)

Impairment of financial assets (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest and similar income". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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.

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.

4. Significant Accounting Policies and Estimates (continued)

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated 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.

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.

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. The carrying amount of goodwill at December 31, 2008 and 2007 was $4,808 and $739, respectively.

4. Significant Accounting Policies and Estimates (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or restaurant level group of assets' (cash generating unit) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Inventories

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

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 weighted-average 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.

4. Significant Accounting Policies and Estimates (continued)

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.

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.

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.

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.

4. Significant Accounting Policies and Estimates (continued)

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities as at fair value through profit or loss.

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.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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.

4. Significant Accounting Policies and Estimates (continued)

Financial liabilities (continued)

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.

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.

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 year ended December 31, 2007, such financial expense amounted to $1,667.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4. Significant Accounting Policies and Estimates (continued)

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Derecognition of financial Instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

4. Significant Accounting Policies and Estimates (continued)

Derecognition of financial Instruments (continued)

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

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.

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 terms.

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.

4. Significant Accounting Policies and Estimates (continued)

Revenue Recognition (continued)

Interest Income

Interest is recognised using the effective interest method. Interest income is included in finance income in the income statement.

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, 2008 and 2007, the Group capitalised borrowing costs for leasehold improvements in the amount of $757 and $225, using the capitalization rate of 13.71% and 9.96%, 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.

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 $16,434 and $11,729 during the years ended 31 December 2008 and 2007, respectively, and they were classified as payroll expenses in these consolidated financial statements.

Loyalty Programmes

Customer loyalty programmes are used by the Group to provide customers with award credits as part of a sales transaction, including awards that can be redeemed for goods and services not supplied by the entity. The Group company collecting the consideration on behalf of the third party measures its revenue as the net amount retained on its own account, i.e. the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards. The Group company acting as an agent for a third party recognises revenue arising from rendering agency services to that third party as revenue from rendering services.

4. Significant Accounting Policies and Estimates (continued)

Loyalty Programmes (continued)

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.

Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are 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.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxable authority.

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, 2008 and 2007, the share of revenues subject to unified tax on imputed income amounted to approximately 15% and 13%, 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, 2008 and 2007, the unified tax on imputed income amounted to $218 and $111, 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.

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

Before 2007, in order to raise capital for the development of its restaurants in the Moscow region, the Group 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 Non-financial Assets

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. In determining fair value less costs to sell, an appropriate valuation model is used. The Group recognised impairment losses for the years ended December 31, 2008 and 2007 in the amount of $5,683 and nil, respectively.

4. Significant Accounting Policies and Estimates (continued)

Accounting Judgements and Estimates (continued)

Impairment of Goodwill

The Group's impairment test for goodwill is based on value in use calculations for 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 Group recognised impairment losses for the years ended December 31, 2008 and 2007 in the amount of $452 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, 2008 and 2007, the allowance for impairment of advances paid, taxes recoverable and receivables amounted to $1,242 and $1,540, 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, 2008 and 2007, the allowances for impairment of inventory amounted to $1,190 and $1,509, respectively.

Current Taxes

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 and 2006, the Group reduced its costs of operations by approximately $800 and $8,000, respectively, through the utilization of certain tax planning strategies. Other possible uncertain tax positions amounted to $1,300 at December 31, 2008. See also Note 28 – Commitments and Contingencies.

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

Acquisition of Mister Lee LLC

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 (at the exchange rate as of December 31, 2007). Net profit of Mister Lee was included in the Group's consolidated income statement from the date of acquisition in the amount of $63.

Acquisition of Den' LLC

On June 30, 2008, the Group acquired a 100% ownership interest in Den' LLC ("Den'"), a Russian limited liability company, for cash consideration of $1,479. The main asset of "Den'" was a rent right with a fair value of $945. The acquisition resulted in excess of the purchase price over the fair value of the net assets assumed of $479 (at the exchange rate as of June 30, 2008), which was recorded as goodwill as the Group expected to generate profits using this location to operate a restaurant business. An impairment loss was recognised in the amount of $452 at December 31, 2008 and was allocated fully to goodwill. An impairment loss was a consequence of rent cost reduction and negative future cash flow.

Acquisition of Valderama Investments Limited

On July 5, 2008, the Group acquired a 100% ownership interest in Valderama Investments Limited ("Valderama") from Rostik Investment Group Inc., a related party, for total consideration of $12,220, including valuation cost of $30. Valderama owned 100% participatory interest in AirTrade LLC ("AirTrade") and 75.06% of the share capital of KOP Pulkovo OJSC ("Pulkovo"), the Group's joint ventures. Until the acquisition the Group participated in joint venture agreements with AirTrade and Pulkovo and had 20% interest in jointly controlled entities.

The financial position and the results of operations of Valderama, AirTrade and Pulkovo were included in the Group's consolidated financial statements beginning July 5, 2008 as the Group effectively exercised control over their operations since that date. In the period from January 1, 2008 to July 5, 2008, the Group accounted for its investment in these joint ventures under the equity method (refer to Note 8).

5. Business Combinations (continued)

Acquisition of Valderama Investments Limited (continued)

Identifiable assets, liabilities and contingent liabilities of Valderama, AirTrade and Pulkovo and the resulting goodwill were as follows:

	July 5, 2008
Property and equipment	1,312
Intangible assets	10,284
Inventories	84
Accounts receivable	613
Cash	1,318
Total assets	***13,611***
Non-current liabilities	(1,613)
Deferred income tax liabilities	(2,513)
Current liabilities	(803)
Total liabilities	***(4,929)***
Minority interest related to KOP Pulkovo	***(1,682)***
Net assets	***7,000***
Fair value of net assets attributable to 100% ownership interest	***7,000***
Purchase consideration	***12,250***
Goodwill as of July 5, 2008	***5,250***

In 2008, cash flow on acquisition was as follows:

	2008
Net cash acquired with the subsidiary	1,318
Cash paid	(12,220)
Net cash outflow	***(10,902)***

Valderama's consolidated net profit for the period from July 5, 2008 to December 31, 2008 amounted to $974. If the acquisition of Valderama group had occurred on January 1, 2008, the Group's revenue for the year ended December 31, 2008, would have increased by the amount of $4,177 and the Group's loss for the year ended December 31, 2008, would have decreased by the amount of $714. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Valderama, AirTrade and Pulkovo.

Goodwill

Movements in goodwill arising on the acquisition of subsidiaries were as follows at December 31:

	2008	***2007***
At January 1	739	–
Acquisition of subsidiaries	5,702	778
Impairment loss for the year	(452)	–
Translation difference	(1,181)	(39)
At December 31	***4,808***	***739***

5. Business Combinations (continued)

Goodwill (continued)

The Group's goodwill was tested for impairment at the restaurants (cash generating unit) level by comparing values of cash generating units' assets including goodwill to their recoverable amounts. The recoverable amount of cash generating units has been determined based on a value in use calculation using cash flows from financial budgets approved by key management covering a five-year period. The cash flow projections were discounted at the Group's cost of financing, 18% in Russian Rouble nominal terms. The Group's management believes that all of its estimates are reasonable as they are consistent with the internal reporting and reflect management's best estimates.

The calculations of value-in-use are most sensitive to the following assumptions:

EBITDA growth rate	10%
Discount rate	18%

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

As the result of the assessment the carrying amount of Den' cash generating unit exceeded its recoverable amount therefore impairment loss was recognised in the income statement in the amount of $452. In regard to the assessment of value-in-use of other cash generating units, management believes that no reasonable change in any of the above assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

6. Intangible Assets

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***

6. Intangible Assets (continued)

The movement in intangible assets for the year ended December 31, 2008 was as follows:

	Franchise rights	Exclusive rent rights	Trademarks	Software	Total
Cost					
At December 31, 2007	567	3,539	882	3,801	***8,789***
Additions	319	2,753	27	484	***3,583***
Assets acquired in business combination	–	10,485	–	–	***10,485***
Disposals	–	–	(5)	(5)	***(10)***
Translation difference	(114)	(2,054)	(141)	(675)	***(2,984)***
At December 31, 2008	***772***	***14,723***	***763***	***3,605***	***19,863***
Accumulated Amortization and Impairment					
At December 31, 2007	(184)	(1,129)	(69)	(302)	***(1,684)***
Charge for the year	(56)	(1,409)	(61)	(808)	***(2,334)***
Disposals	–	–	1	2	***3***
Impairment of intangible assets	–	(1,304)	(731)	–	***(2,035)***
Translation difference	39	531	132	168	***870***
At December 31, 2008	***(201)***	***(3,311)***	***(728)***	***(940)***	***(5,180)***
Net Book Value					
At December 31, 2007	***383***	***2,410***	***813***	***3,499***	***7,105***
At December 31, 2008	***571***	***11,412***	***35***	***2,665***	***14,683***

The Group recognised impairment losses from Trademark “El Rincon Espanol” in the amount of $731 and from rent options in Samara LLC and Rosinter Czech Republic s.r.o. in the amount of $872 and $432, respectively, as future benefit from these assets is unlikely to flow to the Group. Impairment losses were identified as a result of the testing at the level of cash generating units. Recognised impairment losses relate to cash generating units with negative projected cash flows. Carrying amount of the assets was written off to the recoverable amount equal to nil.

7. Property and Equipment

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

	Buildings and leasehold improvements	Restaurant equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost							
At December 31, 2006	58,570	20,940	5,776	4,652	672	5,076	**95,686**
Additions	2,016	1,927	157	358	43	23,170	**27,671**
Assets put into use	9,986	3,081	828	979	396	(15,270)	
Disposals	(6,436)	(4,182)	(675)	(792)	(78)	(2,015)	**(14,178)**
Translation difference	4,596	1,196	478	330	60	464	**7,124**
At December 31, 2007	**68,732**	**22,962**	**6,564**	**5,527**	**1,093**	**11,425**	**116,303**
Accumulated Depreciation							
At December 31, 2006	(22,806)	(5,770)	(2,648)	(1,476)	(247)	–	**(32,947)**
Charge for the year	(5,539)	(1,393)	(1,158)	(491)	(63)	–	**(8,644)**
Disposals	5,110	1,735	540	351	45	–	**7,781**
Translation difference	(1,452)	(235)	(265)	(150)	(18)	–	**(2,120)**
At December 31, 2007	**(24,687)**	**(5,663)**	**(3,531)**	**(1,766)**	**(283)**		**(35,930)**
Net Book Value							
At December 31, 2006	**35,764**	**15,170**	**3,128**	**3,176**	**425**	**5,076**	**62,739**
At December 31, 2007	**44,045**	**17,299**	**3,033**	**3,761**	**810**	**11,425**	**80,373**

7. Property and Equipment (continued)

The movement in property and equipment for the year ended December 31, 2008 was as follows:

	Buildings and leasehold improvements	Restaurant equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost							
At December 31, 2007	68,732	22,962	6,564	5,527	1,093	11,425	**116,303**
Additions	327	4,416	114	558		32,153	**37,568**
Assets acquired in business combination	1,091	962	57	63	35	(472)	**1,736**
Assets put into use	22,024	7,380	2,097	2,668	426	(34,595)	
Disposals	(1,734)	(1,716)	(432)	(380)	(137)	(1,711)	**(6,110)**
Translation difference	(14,688)	(4,981)	(1,260)	(993)	(228)	(1,036)	**(23,186)**
At December 31, 2008	**75,752**	**29,023**	**7,140**	**7,443**	**1,189**	**5,764**	**126,311**
Accumulated Depreciation and Impairment							
At December 31, 2007	(24,687)	(5,663)	(3,531)	(1,766)	(283)	–	**(35,930)**
Charge for the year	(6,404)	(1,785)	(1,454)	(674)	(129)	–	**(10,446)**
Disposals	836	610	369	164	80	–	**2,059**
Impairment of property and equipment	(1,753)	(549)	(118)	(300)	–	(928)	**(3,648)**
Translation difference	5,171	1,176	719	339	49	142	**7,596**
At December 31, 2008	**(26,837)**	**(6,211)**	**(4,015)**	**(2,237)**	**(283)**	**(786)**	**(40,369)**
Net Book Value							
At December 31, 2007	**44,045**	**17,299**	**3,033**	**3,761**	**810**	**11,425**	**80,373**
At December 31, 2008	**48,915**	**22,812**	**3,125**	**5,206**	**906**	**4,978**	**85,942**

7. Property and Equipment (continued)

As of December 31, 2008 and 2007, certain items of property and equipment with a carrying value of $7,718 and $5,988, respectively, were pledged to banks as collateral against loans to the Group.

The Group has several finance lease contracts for motor vehicles and computer equipment. The carrying value of the leased assets as of December 31, 2008 and 2007 amounted to $931 and $1,020, respectively.

The Group recognised impairment losses of property and equipment for the year ended December 31, 2008 in the amount of $3,648 as the recoverable amount of these assets is nil at the same date. Impairment losses were identified as a result of the testing at the level of restaurants (cash generating units). Recognised impairment losses of property and equipment relate to loss-making restaurants located in Moscow, Novosibirsk, Rostov-on-Don and Samara.

8. Investments in Joint Ventures and Associates

The Group accounted for investments in joint ventures and associates under the equity method.

The movement in investments in joint ventures and associates was as follows:

	Pulkovo and AirTrade Joint Venture	Costa Joint Venture	Associates	Total
At December 31, 2006	***11***	–	***94***	***105***
Investments in joint ventures	299	1	–	***300***
Share of profit	3	–	38	***41***
Translation difference	14	–	9	***23***
At December 31, 2007	***327***	***1***	***141***	***469***
Investments in joint ventures	39	2,999	–	***3,038***
Share of profit / (loss)	–	(1,317)	38	***(1,279)***
Elimination of participatory interest in joint venture due to acquisition	(366)	–	–	***(366)***
Translation difference	–	(343)	(29)	***(372)***
At December 31, 2008	–	***1,340***	***150***	***1,490***

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. The Group and Costa operate Rosworth Investments Limited and its subsidiary as a joint venture. The Group has 50% interest in Rosworth Investments Limited which started its operating activity in 2008. During 2008 the Group contributed $2,999 to the capital of the joint venture.

8. Investments in Joint Ventures and Associates (continued)

The following table illustrates summarised financial information of the Group's interest in the Costa joint venture at December 31, 2008 and for the year then ended:

	2008
Non-current assets	1,166
Current assets	978
	2,144
Non-current liabilities	274
Current liabilities	530
	804
Carrying amount of the interest in the joint venture	***1,340***
Revenue	681
Cost of sales	(213)
Selling, general and administrative expenses	(2,013)
Net finance income	307
Net operating expenses	(79)
Loss for the year	***(1,317)***

In July 2008, the Group acquired a 100% ownership interest in Valderama Investments Limited ("Valderama") which holds 100% participatory interest in AirTrade LLC and 75.06% shares in KOP Pulkovo OJSC. The Group eliminated its participatory interest in joint ventures in Pulkovo airport due to the business combination.

Until the acquisition the Group had 20% interest in jointly controlled entities. The financial information of the Group's interest in the Pulkovo joint venture at December 31, 2007 and for the year then ended is as follows:

	2007
Non-current assets	209
Current assets	355
	564
Current liabilities	209
Carrying amount of the interest in the joint venture	***355***
Revenue	1,092
Cost of sales	(303)
Selling, general and administrative expenses	(688)
Net operating expenses	(21)
Profit before income tax	***80***
Income tax expense	(2)
Profit for the year	***78***

According to the joint venture agreements, the Group's share of profits of joint ventures with AirTrade and Pulkovo was calculated by a formula on the basis of the amounts of revenue and rent expenses for the period.

9. Inventories

Inventories consisted of the following as of December 31:

	2008	2007
Foods, beverages, liquors and tobacco, at cost	4,637	4,377
Utensils, paper goods and other items, at cost	3,012	3,364
	7,649	***7,741***
Allowance for slow-moving and damaged items	(1,190)	(1,509)
Total inventories, net	***6,459***	***6,232***

10. Advances Paid

Advances paid consisted of the following as of December 31:

	2008	2007
Advances to suppliers	6,221	5,853
Advances to employees	307	827
	6,528	***6,680***
Allowance for doubtful accounts	(1,070)	(1,314)
Total prepayments, net	***5,458***	***5,366***

As at December 31, 2008 and 2007, advances to suppliers at nominal value of $1,070 and $1,314, respectively, were impaired and fully provided for. Movements in the allowance for impairment of advances paid were as follows:

	2008	2007
At January 1	1,314	1,429
Charge for the year	718	718
Amounts written off	(452)	(603)
Unused amounts reversed	(304)	(348)
Translation difference	(206)	118
At December 31	***1,070***	***1,314***

11. Trade and Other Receivables

Receivables consisted of the following as of December 31:

	2008	2007
Trade receivables	2,906	2,176
Other receivables	761	1,038
	3,667	***3,214***
Allowance for doubtful accounts	(172)	(226)
Total receivables, net	***3,495***	***2,988***

Trade and other receivables are non-interest bearing and are generally on 30-90 days terms.

11. Trade and Other Receivables (continued)

As at December 31, 2008 and 2007, trade and other receivables at nominal value of $172 and $226, respectively, were impaired and fully provided for. Movements in the provision for impairment of trade and other receivables were as follows:

	2008	2007
At January 1	226	727
Charge for the year	66	231
Amounts written off	(92)	(87)
Unused amounts reversed	(1)	(676)
Translation difference	(27)	31
At December 31	***172***	***226***

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

	Total	Neither past due nor impaired	Past due but not impaired		
			<3 months	3-6 months	>6 months
Trade receivables	2,858	1,494	1,115	174	75
Other receivables	637	228	295	44	70
2008	***3,495***	***1,722***	***1,410***	***218***	***145***
Trade receivables	2,084	1,173	791	108	12
Other receivables	904	710	88	68	38
2007	***2,988***	***1,883***	***879***	***176***	***50***

12. Cash and Cash Equivalents

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

	2008	2007
Cash in hand	4,205	3,746
Cash in transit	533	3,362
Cash at bank	909	418
Short-term deposits	287	511
Total cash and cash equivalents	***5,934***	***8,037***

13. 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 dollars per share at the exchange rate as of May 24, 2004).

13. Share Capital (continued)

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, 2008 and 2007 comprised 12,030,457 shares. All issued shares were fully paid.

As of December 31, 2008 and 2007, the outstanding share capital comprised of 11,883,487 shares.

Additional Paid-in Capital

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

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.

	2008	2007
Net (loss)/profit attributable to equity holders of the Company	(15,190)	5,966
Weighted average number of ordinary shares outstanding	11,883,487	11,187,641
(Losses)/earnings per share attributable to equity holders of the Company, basic and diluted (US dollars)	***(1.28)***	***0.53***

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

14. Liabilities to Partners

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

	2008	2007
At January 1	14,078	17,755
Increase in amounts due to partners (Note 26)	2,321	5,490
Payments to partners	(6,685)	(15,041)
Capital contributed by partners in cash	1,706	4,570
Capital contributed by partners in property and equipment	–	839
Payments to acquire interest in subsidiaries	(199)	–
Liabilities to partners in Baltic subsidiaries disposed of during the year	–	(225)
Other non-cash settlements	(839)	–
Translation difference	(857)	690
At December 31	***9,525***	***14,078***

14. Liabilities to Partners (continued)

Analysed as to:

	2008	2007
Current portion	4,338	14,078
Long-term portion	5,187	–
Total liabilities to partners	***9,525***	***14,078***

15. 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	
		2008	2007	2008	2007
Rostik Investment Group Inc. (1)	Entity under common control (EUCC)	2,340	2,801	–	–
Hodler Finance S.A. (2)	EUCC	–	9,166	–	–
OJSC Birulevo (3)	EUCC	–	3,076	–	–
National QSR Network LLC (4)	EUCC	–	3,056	–	–
Other EUCC (5)		362	473	–	233
Total short-term loans receivable from /payable to related parties		***2,702***	***18,572***		***233***

(1) 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 December 2008, the loan agreement was renewed with the same interest rate and due date of December 25, 2009.

(2) 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. During the year ended December 31, 2008, the loan was fully repaid.

(3) 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 on January 17, 2008.

15. Related Parties Disclosures (continued)

(4) 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%. During the year ended December 31, 2008, the loans were fully repaid.

(5) The interest rate for the loans given to/received from the other EUCC varies from nil to 14% per annum.

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	
	2008	2007	2008	2007
Other EUCC (5)	875	368	814	1,046
Total long-term loans receivable from/ payable to related parties	***875***	***368***	***814***	***1,046***

Long-term receivables from related party consisted of receivables from Rostik Investment Group Inc. for management and financial advisory services provided by the Group in accordance with a consultancy agreement signed in 2007. In January 2008, the Group entered into an addendum in which the parties agreed that the arrangement must be settled not later than December 31, 2011. The Group discounted the nominal amount of $1,574 at a market rate of 12% per annum. The outstanding balance at amortized cost was $1,120 as of December 31, 2008.

Long-term advances to related party consisted of two payments to CJSC Preobrazhenie for minority shares in the Group's subsidiaries in Samara and Omsk in the amount of $4,627 and $3,506 (at the exchange rate as of December 31, 2008), respectively.

Short-term 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	
		2008	2007	2008	2007
Rostik Investment Group Inc. (6)	EUCC	332	3,195	83	106
Perm Caramel Restaurants LLC (7)	EUCC	314	4	–	–
Brava LLC (8)	Joint venture	294	–	–	–
RIG Restaurants Limited (9)	Parent company	263	1,273	–	669
Tumen Caramel Restaurants LLC (7)	EUCC	214	256	–	–
Russian Caramel Restaurants LLC (10)	EUCC	30	158	32	–
National QSR Network LLC (11)	EUCC	1	497	122	–
Loyalty Partners Vostok LLC (12)	Other related party	–	–	1,257	1,048
Other EUCC		657	1,400	451	1,004
Total receivable from / payable to related parties		***2,105***	***6,783***	***1,945***	***2,827***

15. Related Parties Disclosures (continued)

(6) In 2007, the Group sold its interest in Baltic subsidiaries to Rostik Investment Group Inc. for cash consideration of $1,621 which was repaid during 2008.

The outstanding receivable balance as of December 31, 2008 and 2007, in the amount of $332 and $1,574, respectively, represents management and financial advisory services provided by the Group to Rostik Investment Group Inc. In 2008, the Group prolonged the Consultancy Agreement period till December 31, 2011 and receivable balance was reclassified to long-term receivables from related parties in the amount of $1,120.

The outstanding payable balance as of December 31, 2008 and 2007, comprises rent payable and interest payable.

(7) The outstanding receivable balances as of December 31, 2008 and 2007, relate to non-current assets of Rostik's-KFC outlets sold by the Group to regional Rostik's companies Perm Caramel Restaurants LLC and Tumen Caramel Restaurants LLC.

(8) The outstanding receivable balance as of December 31, 2008, in the amount of $294 represents catering, management and other services provided in accordance with agreements between the Group and Brava LLC.

(9) The outstanding receivable balance at December 31, 2008 and 2007, results from operating expenses and IPO expenses paid by the Group on behalf of RIG Restaurants Limited.

(10) The outstanding receivable balances at December 31, 2008 and 2007, represent rent, management and accounting services provided by the Group to Russian Caramel Restaurants LLC.

(11) The outstanding balances at December 31, 2008 and 2007, represent management, consulting and accounting services provided by the Group to National QSR Network LLC.

(12) 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, 2008 and 2007, receivables from related parties at nominal value of $35 and $43, respectively, were impaired and fully provided for.

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

	Total	Neither past due nor impaired	Past due but not impaired		
			<3 months	3-6 months	>6 months
2008	2,105	1,540	55	19	491
2007	6,783	5,721	1,012		50

15. Related Parties Disclosures (continued)

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

Related Parties	Nature of relationship	Revenue and other gains 2007	Purchases 2007	Interest income 2007	Interest expense 2007
RIG Restaurants Limited	Parent company	–	–	283	–
National QSR Network LLC (13)	EUCC	1,988	62	57	–
Omsk QSR Network LLC (14)	EUCC	2,409	27	–	–
Russian Caramel Restaurants LLC (15)	EUCC	645	–	–	–
RosCorp LLC (17)	EUCC	20	3,853	–	–
Rostik Aero LLC (18)	EUCC	–	987	–	–
Other EUCC		1,386	2,278	359	227
Total		***6,448***	***7,207***	***699***	***227***

Transactions with related parties were as follows for the year ended December 31, 2008:

Related Parties	Nature of relationship	Revenue and other gains 2008	Purchases 2008	Interest income 2008	Interest expense 2008
National QSR Network LLC (13)	EUCC	1,806	50	361	–
Omsk QSR Network LLC (14)	EUCC	1,360	–	–	–
Russian Caramel Restaurants LLC (15)	EUCC	716	–	–	–
Brava LLC (16)	Joint venture	399	3	–	–
RosCorp LLC (17)	EUCC	172	3,422	1	–
Rostik Aero LLC (18)	EUCC	10	305	–	–
Rostik Investment Group Inc. (4, 6)	EUCC	3	511	404	454
Hodler Finance S.A. (1)	EUCC	14	–	482	–
Other EUCC		1,643	1,387	90	315
Total		***6,123***	***5,678***	***1,338***	***769***

(13) During 2008 and 2007, the Group rendered management, consulting and accounting services to National QSR Network LLC.

(14) During 2008 and 2007, the Group rendered management, consulting and accounting services and sold semi-finished product to Omsk QSR Network LLC.

(15) During 2008 and 2007, the Group rendered rent, management and accounting services Russian Caramel Restaurants LLC.

(16) During 2008, the Group rendered catering, management and other services to Brava LLC, the Russian subsidiary of the Group's joint venture with Costa Limited.

(17) During 2008 and 2007, the Group purchased rent, transport and utility services RosCorp LLC.

(18) During 2008 and 2007, Rostik Aero LLC provided the Group with premises for fees Rostik Aero LLC.

On December 27, 2007, the Group reacquired 146,970 own shares from the Parent company for the amount of $8,608 (see Note 13).

15. Related Parties Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel totalled 16 and 15 persons as at December 31, 2008 and 2007, respectively. Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	2008	2007
Salary	3,288	2,119
Performance bonuses	144	1,878
	3,432	***3,997***

The Group's contributions relating to social taxes for key management personnel amounted to $144 and $125 during the years ended December 31, 2008 and 2007, respectively.

16. Long-Term Debt

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

	2008	2007
Bonds issued, net of issuance cost	33,974	45,680
Expobank	3,676	–
Saving Bank of the Russian Federation (Sberbank)	–	4,074
Ukreximbank	–	1,228
Other long-term debts	331	977
	37,981	***51,959***
Less: current portion	(34,293)	(51,681)
Total long-term debt	***3,688***	***278***

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 is 144,243 bonds in the amount of $5,878 (at the exchange rate at December 31, 2007). On July 2, 2008, the bonds were redeemed.

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 three coupon periods ended May 2008 was 10.75%. The interest rate for the next two coupon periods ending May 2009 is 12.00%. During 2008, bondholders exercised their early redemption option and all redeemed bonds were sold by the Group. The outstanding balance at December 31, 2008 and 2007 represented 1,000,000 bonds in the amount of $34,036 (at the exchange rate at December 31, 2008) and 981,142 bonds in the amount of $39,971 (at the exchange rate at December 31, 2007). The bonds will mature on November 26, 2010. The bondholders have an early redemption option exercisable in May 2009.

16. Long-Term Debt (continued)

Expobank

In July 2008, the Group assumed a liability under a credit facility through the business combination in the amount of 108 million Russian roubles ($3,676 at the exchange rate at December 31, 2008) bearing interest of 12.0% per annum and maturing in January 2010. The credit facility is secured by guarantees of Rostik Investment Group, Inc and VAKO LLC, the related parties.

Sberbank

In September 2006, the Group obtained a loan in the amount of 100 million Russian roubles ($4,074 at the exchange rate at December 31, 2007) bearing interest of 9.2% per annum and maturing in March 2008. The loan was 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 was secured by a pledge of restaurant equipment with a carrying value of $689. The unutilized balance of the credit facility amounted to $160 at December 31, 2007. The credit facility was fully repaid on July 31, 2008.

17. Finance Lease Liabilities

The Group has several 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 $931 and $1,020 as of December 31, 2008 and 2007, respectively. Depreciation of property and equipment under the finance lease contracts for 2008 and 2007 amounted to $308 and $248, respectively. Finance charges for the year ended December 31, 2008 and 2007 amounted to $160 and $183, respectively, and are included in interest expense in the consolidated statement of income.

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

	2008		2007	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	444	369	482	363
After one year but not more than five years	168	143	383	334
Total minimum lease payment	***612***	***512***	***865***	***697***
Less amounts representing finance charges	(100)	–	(168)	–
Present value of minimum lease payments	***512***	***512***	***697***	***697***

In the year ended December 31, 2008, the interest rate varied from 9.28% to 24.00%. In the year ended December 31, 2007, the interest rate varied from 9.28% to 12.78%.

18. Income Tax

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

	2008	2007
Current tax	(5,050)	(4,682)
Deferred tax	2,097	450
Total income tax expense	***(2,953)***	***(4,232)***

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, 2008:

	December 31, 2007	Differences recognition and reversal	Effect of tax rate reduction	Deferred tax acquired in business combination	Translation difference	December 31, 2008
Tax effect of deductible temporary differences						
Trade and other payables	2,780	(844)	(276)	–	(281)	1,379
Allowance for impairment of receivables and inventory	398	(69)	(50)	–	(29)	250
Carryforward of unused tax losses	511	3,365	(537)	–	(653)	2,686
Other	205	(178)	(4)	–	(3)	20
Total deferred tax asset:	***3,894***	***2,274***	***(867)***		***(966)***	***4,335***
Tax effect of taxable temporary differences						
Property and equipment	(1,266)	223	480	(2,467)	628	(2,402)
Trade and other receivables	(321)	277	6	–	10	(28)
Other	(5)	(355)	59	(55)	59	(297)
Total deferred tax liability:	***(1,592)***	***145***	***545***	***(2,522)***	***697***	***(2,727)***
Net deferred tax asset / (liability)	***2,302***	***2,419***	***(322)***	***(2,522)***	***(269)***	***1,608***

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***

18. Income Tax (continued)

The recognition and reversal of temporary differences, as presented in the tables above, primarily relates to the depreciation of property and equipment in excess of the depreciation for tax purposes, accrued liabilities, tax losses available for carry forward and provisions to write inventory down to net realizable value.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised aggregate to $901 and $3,168 as of December 31, 2008 and 2007, respectively. At December 31, 2008, the Group recognised a deferred tax liability for the temporary differences associated with profit distribution in the amount of $449.

As of December 31, 2008 and 2007, several Company's subsidiaries had accumulated tax losses in the amount of $13,430 and $2,129, for which a deferred tax asset of $2,686 and $511, respectively, 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.

The statutory tax rate effective in the Russian Federation, the location of the majority of the Group's entities, was 24% in 2008 and 2007. 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. The statutory tax rate was reduced to 20% in 2009. Deferred tax assets and liabilities were calculated using 20% tax rate. Below is a reconciliation of theoretical income tax at 24% to the actual (expense)/benefit recorded in the Group's income statement:

	2008	2007
(Loss)/profit before income tax	(12,252)	10,198
At Russian statutory income tax rate of 24%	2,940	(2,448)
Effect of differences in tax rates in countries other than the Russian Federation	2,412	1,858
Adjustment in respect of income tax of previous years	407	–
Tax on dividend income related to dividend declared by subsidiaries	(1,175)	(1,507)
(Loss)/profit subject to unified tax on imputed income	(808)	1,081
Reduction in deferred taxes closing balance resulting from reduction in tax rate	(322)	–
Deferred tax expense recognised for profit distribution	(449)	–
Effect of non-deductible expenses and other non-temporary differences	(5,958)	(3,216)
Income tax expense reported in the consolidated income statement	***(2,953)***	***(4,232)***

19. Trade and Other Payables

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

	2008	2007
Trade creditors	13,595	12,337
Accrued salaries	6,912	9,491
Output VAT and other taxes payable	7,244	3,238
Interest payable to banks	479	2,444
Advances received	1,597	382
Other liabilities	6,672	5,624
Total trade and other payables	***36,499***	***33,516***

20. Short-Term Debt

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

	2008	2007
Sberbank	18,719	3,777
Amsterdam TB	8,400	–
UniCredit Bank	–	1,507
MDM Bank	7,500	–
Bank Societe General Vostok (BSGV)	5,000	–
Credit Europe Bank	5,000	–
Other	102	–
	44,721	***5,284***
Current portion of long-term loans (Note 16)	34,293	51,681
Total short-term debt	***79,014***	***56,965***

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 12.0% per annum and maturing in December 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 at 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.

In 2008, the Group entered into a number of credit facility agreements within the limit of the General Agreement in the total amount of 450 million Russian roubles ($15,316 at the exchange rate at December 31, 2008) bearing interest of 12.25% per annum and maturing from February 26 to May 22, 2009. The credit facilities are secured by a pledge of restaurant equipment in Moscow with a carrying value of $6,268. The credit facilities were fully utilised at December 31, 2008.

In April 2008, the Group entered into a credit facility agreement in the amount of 100 million Russian roubles ($3,403 at the exchange rate at December 31, 2008) bearing interest of 12.75% per annum and maturing in October 2009. The loan is secured by a pledge of restaurant equipment with a net book value of $1,450. The credit facility was fully utilised at December 31, 2008.

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 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. In July 2008, the credit facility was renewed with the amount of $8,400, interest rate of 10.0% and due date of April 8, 2011. The current tranch in the amount of $8,400 is due on July 16, 2009.

UniCredit Bank

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 12.0% per annum and maturing in November 2008. The loan was 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. In November 2008, the Group fully repaid the debt.

20. Short-Term Debt (continued)

MDM Bank

In September 2008, the Group entered into an unsecured loan agreement in the amount of $7,500 bearing interest of 13.5% per annum and maturing in March 2009. In March 2009, the Group renewed the loan agreement for the same amount bearing interest of 16.0% and maturing from May 4 to July 2, 2009.

BSGV

In July 2008, the Group entered into a revolving credit facility agreement in the amount of $5,000 bearing interest from 6.8% to 8.0% per annum and maturing in January 2010. In January 2009, the Group obtained a loan in the full amount bearing interest of 6.8% per annum and maturing on July 15, 2009.

Credit Europe Bank

In March 2008, the Group entered into a revolving credit facility agreement in the amount of $5,000 bearing interest of 9.0% per annum and maturing in September 2008. In September 2008, the credit facility was renewed with the interest rate of 14.0% and due date of March 31, 2009. The debt was fully repaid in March 2009.

21. Revenue

Revenue for the years ended December 31 consisted of the following

	2008	2007 Restated
Revenue from restaurants	302,079	237,195
Revenue from canteens	12,206	6,547
Franchise revenue	8,730	5,871
Sublease services and other services	5,267	4,083
Sales of semi-finished products to franchisees	3,984	4,764
Other services	8,842	6,609
Total revenue	***341,108***	***265,069***

22. Cost of Sales

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

	2008	2007 Restated
Food and beverages	87,101	72,559
Payroll and related taxes	69,416	52,435
Rent	40,677	29,066
Restaurant equipment depreciation	10,149	7,009
Utilities	8,617	6,565
Other	681	603
Total cost of sales	***216,641***	***168,237***

23. Selling, General and Administrative Expenses

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

	2008	2007
Payroll and related taxes	31,614	24,137
Start-up expenses for new restaurants	12,415	5,117
Advertising	10,415	9,031
Other services	7,611	3,345
Materials	7,309	5,258
Rent	6,848	5,092
Laundry and sanitary control	5,653	3,262
Maintenance and repair services	5,457	4,095
Transportation services	2,719	1,858
Depreciation and amortization	2,631	2,188
Bank services	2,514	1,650
Financial and legal services	1,958	1,637
Franchising fee	1,742	1,700
Increase/(decrease) in the allowance for impairment of advances paid, taxes recoverable and receivables	1,391	(110)
Utilities	1,259	826
Other expenses	5,405	4,740
Total selling, general and administrative expenses	***106,941***	***73,826***

24. Rent Expenses

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

	2008	2007
Rent premises minimum lease payment	44,521	32,525
Rent premises contingent lease payment	3,004	1,633
Total rent expenses	***47,525***	***34,158***

25. Other (Gains)/Losses

Gains and losses for the years ended December 31consisted of the following:

	2008	2007 Restated
Gain on disposal of subsidiaries	–	(988)
Other gains	(1969)	(4,280)
Total other gains	***(1,969)***	***(5,268)***
Loss on disposal of non-current assets	2,957	1,660
Other losses	4,598	4,666
Total other losses	***7,555***	***6,326***

25. Other (Gains)/Losses (continued)

Gain on disposal of subsidiaries in 2007 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 15). 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.

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 one-off expenses.

26. Financial (Income)/Expenses

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

	2008	2007
Interest income	(1,583)	(1,385)
Total financial income	***(1,583)***	***(1,385)***

	2008	2007
Interest expense	9,715	6,748
Increase in amounts due to partners (Note 14)	2,321	5,490
Excess of cash paid over book value of liability to partners relating to ownership interest acquired in subsidiaries	–	1,667
Total financial expenses	***12,036***	***13,905***

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.

27. Losses from impairment of assets

Losses from impairment of assets for the years ended December 31consisted of the following:

	2008	2007
Loss from impairment of property and equipment *(Note 7)*	3,648	–
Loss from impairment of intangible assets *(Note 6)*	2,035	–
Loss from impairment of goodwill *(Note 5)*	452	–
Total losses from impairment of assets	***6,135***	–

28. Commitments and Contingencies

Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

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.

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.

28. Commitments and Contingencies (continued)

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:

	2008	2007
Within one year	39,703	27,018
After one year but not more than five years	112,318	83,122
More than five years	42,326	40,224
Total minimum rental payables:	***194,347***	***150,364***

29. 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 summarised below.

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 16.

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 20). 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.

29. Financial Risk Management Objectives and Policies (continued)

Currency Risk (continued)

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 2008		
US dollar/Russian rouble	(13.8%)	(237)
US dollar/Russian rouble	(31.8%)	(546)
US dollar/Kazakhstani Tenge	(16.8%)	(460)
US dollar/Kazakhstani Tenge	(29.8%)	(816)
US dollar/Ukrainian Hryvnia	33.8%	1,734
US dollar/ Ukrainian Hryvnia	(33.8%)	(1,734)
As at 31 December 2007		
US dollar/Russian rouble	7.0%	53
US dollar/Russian rouble	(7.0%)	(53)

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, 2008 and 2007 based on contractual undiscounted payments.

December 31, 2008	Less than 3 months	3-12 months	1 to 5 years	Total
Long-term and short-term debt	21,455	61,643	7,432	**90,530**
Long-term and short-term debt due to related parties	–	–	814	**814**
Trade and other payables and income tax payable	37,689	64	–	**37,753**
Payables to related parties	1,869	76	–	**1,945**
Liabilities to partners	–	4,338	5,187	**9,525**
Finance leases	131	313	168	**612**
Total	**61,144**	**66,434**	**13,601**	**141,179**

29. 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***

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.

No changes were made in the objectives, policies or processes during the years ending December 31, 2008 and 2007.

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 primarily a leverage ratio, which is net debt divided by EBITDA. The Group's policy is to keep the leverage ratio well below the covenant ratios specified in its debt facility agreements. The Group includes within net debt loans and other forms of borrowings, including finance leases, less cash and short-term deposits.

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. The fair value of bonds and long-term borrowings has been calculated by discounting the expected future cash flows at interest rates of 17%:

	Carrying amount		Fair value	
	2008	2007	2008	2007
Current portion of long-term debt	34,293	51,681	34,122	51,689
Long-term debt	3,676	278	3,505	278

30. Subsequent Events

In the beginning of 2009, the Russian Rouble was devalued to major currencies. At the date these consolidated financial statements have been authorized for issue, the official exchange rate of the Russian Rouble to US Dollar as set by the Central Bank of Russia comprised 30.6919, which constitutes a 4% reduction in the value of the Russian Rouble to the US Dollar since December 31, 2008.

30. Subsequent Events (continued)

On June 3, 2009 the Group entered into a new loan agreement with Sberbank in the amount of 950 million Russian roubles ($30,912 at the exchange rate at June 3, 2009) bearing interest of 18.5% per annum and maturing in June 2012, in order to be able to finance the repayment of the outstanding bonds in line with the early redemption option bond holders have. Reference is made to the explanations in Note 2.

Contacts

OJSC Rosinter Restaurants Holding

7 Dushinskaya St., building 1, Moscow, 111024, Russia

Phone: +7 (495) 788-4488

Fax: +7 (495) 956-4705

www.rosinter.com

Investor Inquiries

Amin Muci / ***Head of Investor Relations***

Eduard Pilipenko / ***Deputy Head of Investor Relations***

Phone: +7 (495) 788-4488 ext. 2108, 2785

E-mail: ir@rosinter.ru

Media Inquiries

Valeria Silina / ***PR Director***

Ekaterina Korobkova / ***Press Secretary***

Phone: +7 (495) 788-4488 ext. 2426

E-mail: 2pr@rosinter.ru