JSC "Trade House "KOPEYKA"

Consolidated Financial Statements

Years ended 31 December 2005, 2004 and 2003
with Report of Independent Auditor

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Years ended 31 December 2005, 2004 and 2003

Contents

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Report of Independent Auditor

To the Shareholders of JSC "Trade House "Kopeyka":

We have audited the accompanying consolidated balance sheets of Joint Stock Company "Trade House "Kopeyka" ("the Company") as of 31 December 2005, 2004 and 2003, the related consolidated statements of income and cash flows for the years then ended, and statements of changes in equity for the year ended 31 December 2005 and changes in net assets attributable to participants for the years ended 31 December 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as described in the following paragraph, we conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Because we were appointed auditors of the Company during 2003, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories enter into determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 2003.

In our opinion, except for the effect on the financial statements of such adjustments, if any, to the results of operations for the year ended 31 December 2003, that might have been determined to be necessary had we been able to satisfy ourselves as to the inventory quantities as at 1 January 2003, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of JSC "Trade House "Kopeyka" as of 31 December 2005, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

28 April 2006

JSC "Trade House "Kopeyka"

Consolidated Balance Sheets

(In thousands of US Dollars)

	Notes	31 December 2005	31 December 2004	31 December 2003
ASSETS			As restated Note 33	As restated Note 33
Non-current assets				
Property and equipment, net	**12**	169 197	95 471	55 014
Intangible assets, net	**13**	75 332	77 851	73 125
Deferred income tax asset	**26**	2 318	158	106
Other non-current assets	**16**	596	1 586	725
		247 443	**175 066**	**128 970**
Current assets				
Inventories, net	**7**	30 112	20 980	10 970
Trade receivables, net	**8**	4 594	2 466	1 634
Advances paid	**9**	4 274	2 522	649
Taxes receivable	**10**	24 717	13 070	6 164
Cash and cash equivalents	**6**	10 437	18 489	2 927
Forward currency contract	**32**	158	-	-
Other current assets	**11**	482	743	1 092
		74 774	**58 270**	**23 436**
TOTAL ASSETS		**322 217**	**233 336**	**152 406**
LIABILITIES AND EQUITY				
Non-current liabilities				
Deferred income tax liability	**26**	4 913	4 288	3 065
Other non-current liabilities	**16**	256	1 007	-
Net assets attributable to participants		-	146 350	131 656
		5 169	**151 645**	**134 721**
Equity				
Share capital	**19**	102 814	-	-
Translation difference		(2)	-	-
Retained earnings		38 380	-	-
		141 192	**-**	**-**
Current liabilities				
Trade payables	**14**	56 076	27 999	14 537
Taxes payable	**15**	3 199	1 515	2 397
Short term debt	**17**	112 304	50 844	-
Dividends payable	**20**	175	-	-
Other current liabilities	**18**	4 102	1 333	751
		175 856	**81 691**	**17 685**
TOTAL LIABILITIES AND EQUITY		**322 217**	**233 336**	**152 406**

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

JSC "Trade House "Kopeyka"

Consolidated Income Statements

Years ended 31 December 2005, 2004 and 2003

(In thousands of US Dollars)

	Notes	2005	2004	2003
Revenues				
Retail revenues - own stores		448 887	301 294	163 436
Retail and wholsale revenues - franchised stores		122 671	62 843	50 234
Other revenues	22	3 272	1 690	1 081
Total revenues		**574 830**	**365 827**	**214 751**
Cost of goods sold	21	(454 409)	(293 202)	(175 124)
Gross profit		**120 421**	**72 625**	**39 627**
Selling, general and administrative expenses	23	(80 909)	(44 962)	(26 604)
Pre-opening costs	24	(4 227)	(1 116)	(310)
Depreciation and amortization		(8 383)	(5 554)	(3 384)
Other operating expenses		(222)	(279)	(459)
Profit from operating activities		**26 680**	**20 714**	**8 870**
Foreign exchange (loss)/gain, net		(1 999)	1 923	-
Financial (expense)/income, net	25	(8 539)	(1 779)	633
Profit before income taxes		**16 142**	**20 858**	**9 503**
Income tax expense	26	(6 805)	(5 641)	(2 634)
Net profit		**9 337**	**15 217**	**6 869**
Earnings per share (in US Cents)				
- basic, for the profit for the year	27	**0.34**	**0.56**	**0.25**

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

JSC “Trade House “Kopeyka”

Consolidated Statements of Changes in Equity and Net assets attributable to participants

Years ended 31 December 2005, 2004 and 2003

(In thousands of US Dollars)

	Share Capital	Retained Earnings	Charter Capital	Cumulative surplus of net assets	Translation difference	Total
At 1 January 2003 (as previously reported)	**-**	**-**	**94 044**	**(2 658)**	**-**	**91 386**
Effect of restatement of goodwill (Note 33)	-	-	-	26 556	-	26 556
At 1 January 2003 (as restated)	**-**	**-**	**94 044**	**23 898**	**-**	**117 942**
Redemption of participant’s interest (Note 19)	-	-	(974)	(205)	-	(1 179)
Net profit	-	-	-	6 869	-	6 869
Dividends (Note 20)	-	-	-	(1 481)	-	(1 481)
Effect of exchange rate changes	-	-	7 398	853	1 254	9 505
At 31 December 2003	**-**	**-**	**100 468**	**29 934**	**1 254**	**131 656**
Net profit	-	-	-	15 217	-	15 217
Dividends (Note 20)	-	-	-	(8 860)	-	(8 860)
Effect of exchange rate changes	-	-	6 176	1 946	215	8 337
At 31 December 2004	**-**	**-**	**106 644**	**38 237**	**1 469**	**146 350**
Issuance of shares in connection with legal reorganization (Note 19)	106 644	38 237	(106 644)	(38 237)	-	-
Net profit	-	9 337	-	-	-	9 337
Dividends (Note 20)	-	(9 238)	-	-	-	(9 238)
Effect of exchange rate changes	(3 830)	44	-	-	(1 471)	(5 257)
At 31 December 2005	**102 814**	**38 380**	**-**	**-**	**(2)**	**141 192**

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

JSC "Trade House "Kopeyka"

Consolidated Statements of Cash Flows

Years ended 31 December 2005, 2004 and 2003

(In thousands of US Dollars)

	2005	2004	2003
Cash flows from operating activities			
Profit before income taxes	16 142	20 858	9 503
Adjustments for:			
Interest income	(163)	(113)	(693)
Interest expense	8 702	1 892	61
Shortage of goods	5 451	3 510	3 238
Depreciation and amortization	8 383	5 554	3 384
Loss from disposal of property and equipment	239	41	175
Foreign exchange loss/(gain)	1 999	(1 923)	-
Operating cash flows before working capital changes	**40 753**	**29 819**	**15 668**
(Increase)/decrease in trade receivable and advances paid	(4 130)	(2 469)	5 157
Increase in inventories	(15 510)	(12 499)	(5 956)
Increase in taxes receivable	(12 475)	(3 777)	(3 779)
Increase in trade and other accounts payable	28 933	9 164	2 034
Increase/(decrease) in taxes payable, other than income tax	684	(230)	-
Decrease / (increase) in other assets	1 027	816	(192)
Cash generated from operations	**39 282**	**20 824**	**12 932**
Interest paid	(8 407)	(678)	(61)
Income taxes paid	(6 985)	(6 411)	(1 801)
Net cash flows from operating activities	**23 890**	**13 735**	**11 070**
Cash flows from investing activities			
Purchases of property and equipment	(84 040)	(38 097)	(17 313)
Proceeds from the sale of property and equipment	689	37	136
Purchases of intangible assets	(744)	(576)	(791)
Interest received	163	113	693
Net cash used in investing activities	**(83 932)**	**(38 523)**	**(17 275)**
Cash flows from financing activities			
Redemption of participants' interest	-	-	(1 179)
Proceeds from bonds issue	42 353	-	-
Proceeds from/(repayment of) short-term borrowings	19 749	48 245	(8 344)
Repayment of other non-current liability	(518)	(481)	-
Dividends paid	(9 060)	(8 860)	(1 481)
Net cash provided by/(used) in financing activities	**52 524**	**38 904**	**(11 004)**
Effect of exchange rate changes on cash and cash equivalents	**(534)**	**1 446**	**808**
Net (decrease)/increase in cash and cash equivalents	**(8 052)**	**15 562**	**(16 401)**
Cash and cash equivalents at beginning of year	**18 489**	**2 927**	**19 328**
Cash and cash equivalents at end of year	**10 437**	**18 489**	**2 927**

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

1. Description of Business

JSC "Trade House "Kopeyka" (further referred to as the "Company", or, together with its subsidiaries, the "Group") is a joint stock company incorporated in Russian Federation on 9 November 2005. It is a legal successor of limited liability company "Trade House "Kopeyka", incorporated on 16 May 2002. The consolidated financial statements of the Company for the year ended 31 December 2005 were authorized for issue by the President of the Company on 28 April 2006.

The Group's principal activity is food and consumer goods retailing. As of 31 December 2005, the Group operated 50 stores and supermarkets on own premises and 56 stores on leased premises (2004: 27 own and 24 leased) in Moscow, Moscow region and the surrounding regions of the central part of Russia. The Company also grants franchise rights to third party store operators. As at 31 December 2005 12 stores operated under franchise agreements (31 December 2004: 17). As of 31 December 2005, the Group employed 4,301 employees (2004: 2,574; 2003: 2,178). The head office of the Company is located at Petrovsko-Razumovsky proezd, 28, Moscow, Russia.

2. Group Formation

The Company was formed as a limited liability company in May 2002 by three individual shareholders and ZAO "Yukos-M", a participant in the Company until October 2003. Upon formation, the individual shareholders contributed their ownership interests in the following entities: LLC "Felma" (80% interest), LLC "Trigger" (100% interest) and LLC "Nex" (100% interest) (collectively referred to as "predecessor entities") in exchange for 49.5% share in the capital of the Company. ZAO "Yukos-M" contributed its 20% ownership interest in LLC "Felma" and cash in the amount of USD 35,840 thousand (RR 1,108,100 thousand) in exchange for 50.5% share in the capital of the Company.

As a result of the foundation agreement between the Company's participants, control over the predecessor entities was effectively transferred from their former shareholders to ZAO "Yukos-M". Therefore, the Company accounted for acquired ownership interests in the predecessor entities as business combination.

3. Basis of preparation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The consolidated financial statements have been prepared under the historical cost convention except for a currency forward contract, which has been measured at fair value.

3. Basis of preparation of the financial statements (continued)

Basis of Presentation

The Company has transitioned to IFRS at 1 January 2003 using the provisions of IFRS 1, "First-time Adoption of International Financial Reporting Standards", which is effective for periods starting on or after 1 January 2004. IFRS 1 applies to first-time adopters of IFRS including companies that previously applied some, but not all IFRS, and disclosed this fact in their most recent financial statements. The Company's previous financial statements disclosed that management made certain estimates and assumptions to account for Group formation and acquisition of subsidiaries, which did not comply with IFRS 3, "Business Combinations".

The Company has applied an exemption permitted by IFRS 1 which allows an entity that did not prepare consolidated financial statements under its previously adopted accounting standards prior to the date of transition of IFRS not to apply purchase accounting to past business combinations. Accordingly, the Company determined the deemed cost of goodwill arising on acquisition of subsidiaries that is described in Note 2 as the difference, at the date of transition to IFRS, between the parent's interest in the net assets of subsidiaries and the cost in the parent's separate financial statements of its investments in the respective subsidiaries. Assets and liabilities of the subsidiaries at 1 January 2003 were adjusted to present them in accordance with IFRS. The cost of investments in the parent's separate financial statements was recorded in the amounts equal to the fair value of exchanged ownership interests at the time of the Company's formation.

The Company has also applied an exemption permitted by IFRS 1 which allows an entity to measure property and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. This exemption was applied to buildings with the carrying amount of USD 15,146 thousand at 1 January 2003 which were recorded at the appraised value that management considered to be comparable to the fair value.

Measurement Currency

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

Presentation Currency

The accompanying financial statements are presented in US dollars. Such presentation is considered to be convenient for certain users of the financial statements.

Assets and liabilities as of 31 December 2005, 2004 and 2003 have been translated into US dollars at the exchange rates existing at the balance sheet date. Income and expense items have been translated at the average rates for the twelve-month period ended 31 December 2005, 2004 and 2003. Equity and net assets attributable to participants other than net profit for the period have been translated into US dollars at the exchange rate as of 31 December 2004 and 2005. All exchange differences resulting from translation have been recognized as a component of equity and net assets attributable to participants.

3. Basis of preparation of the financial statements (continued)

Presentation Currency (continued)

The Russian Rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (the "CBR"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. As of 31 December 2005, 2004 and 2003 the official rate of exchange was 28.7825, 27.7487 and 29.4545 Roubles to US$1, respectively, and the average exchange rate for 2005, 2004 and 2003 was 28.2864, 28.8150 and 30.6877 Roubles to US$1 respectively.

Any translation of Rouble amounts to US dollars should not be construed as a representation that such Rouble amounts have been or will be converted into US dollars at the exchange rates shown.

Foreign Currency Translation

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of JSC "Trade House "Kopeyka" and its subsidiaries drawn up to 31 December 2005, 2004 and 2003 after elimination of all inter-company transactions.

3. Basis of preparation of the financial statements (continued)

The following wholly owned subsidiaries were consolidated:
- LLC “Kopeyka Moscow”,
- LLC “Kopeyka Development”,
- LLC “Sovtranscargo”,
- LLC “Kopeyka Samara”,
- LLC “Kopeyka Development Samara”,
- LLC “Kopeyka Moscow Region”,
- LLC “Kopeyka Import”,
- LLC “Kopeyka Tula”,
- LLC “Kopeyka Kaluga”,
- LLC “Kopeyka Riasan”,
- LLC “Kopeyka Yaroslavl”,
- LLC “Kopeyka Vladimir”,
- LLC “Kopeyka Tver”,
- LLC “Kopeyka Voronezh”,
- LLC “Kopeyka Nizhny Novgorod”, and
- JSC “Victorya-18”

LLC “Kopeyka Moscow” is a retail operator for all of the Group’s stores.

LLC “Kopeyka Development” is engaged in the development and management of commercial property in Moscow and the Moscow region, where the Group’s stores are located.

LLC “Sovtranscargo” is a transport company providing services to LLC “Kopeyka Moscow” as well as certain external customers.

All other subsidiaries were established by the Company in 2003, 2004 and 2005 to expand its retail operations outside Moscow.

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

Accounting for the Effect of Inflation

The Russian economy was considered hyperinflationary until 31 December 2002. As such, the Group applied IAS 29 “Financial Reporting in Hyperinflationary Economies”. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring unit current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

Effective 1 January, 2003, Russia ceased to be a hyperinflationary economy as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies”.

3. Basis of preparation of the financial statements (continued)

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 "Share-Based Payment";
- IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 17 (revised) "Leases";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 27 (revised) "Consolidated and Separate Financial Statements";
- IAS 28 (revised) "Investments in Associates";
- IAS 31 (revised) "Interests in Joint Ventures";
- IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
- IAS 33 (revised) "Earnings per Share";
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement"; and
- IAS 40 (revised) "Investment property".

There have been no significant effects of these changes in policies on these financial statements.

IFRSs and IFRIC Interpretations not yet effective

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

- IAS 19 (amended 2004) "Employee Benefits";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRS 6 "Exploration for and Evaluation of Mineral Resources";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

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

3. Basis of preparation of the financial statements (continued)

Reclassifications

In 2005 the Group adopted the following income statement reclassifications that were applied to all periods presented.

Discounts provided by suppliers of goods for resale in a form of marketing fees are presented as a reduction of cost of goods sold. Previously, these discounts were presented as marketing revenue in the Group’s consolidated income statement.

Inventory shortage expense is presented as a part of cost of goods sold. Previously, these expenses were presented as a part of selling, general and administrative expenses in the Group’s consolidated income statement.

Expenses incurred in the process of opening of new stores which do not meet capitalization criteria under IAS 16 “Property, Plant and Equipment” are presented separately in the Group’s consolidated income statement. Previously, these expenses were included within categories of expenses that they related to based on their nature in the Group’s consolidated income statement.

Segment Information

The Group’s operations comprise activities in food and consumer goods retailing which constitute one reportable segment.

4. Significant Accounting Estimates

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date:

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was USD 73,490 thousand (2004 and 2003: USD 76,228 thousand USD 71,813 thousand respectively).

5. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

Trade receivables, which generally have a short term, are carried at 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.

Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of retail inventory is determined on the weighted average basis, net of supplier discounts and excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property and Equipment

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

For certain items of property and equipment acquired prior to 1 January 2003, fair values as at 1 January 2003 have been used as deemed cost in accordance with the exemption provided in IFRS 1. Other property and equipment acquired prior to 1 January 2003 were restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" by applying the relevant conversion factors to the historical cost through 31 December 2002.

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

Asset Category	Depreciation Period
Buildings	30 years
Trade equipment	7 years
Vehicles	5-7 years
Leasehold improvements	Shorter of useful life and term of lease
Other assets	5-7 years

5. **Summary of Significant Accounting Policies (continued)**

Property and Equipment (continued)

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

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

Goodwill

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

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

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

Other Intangible Assets

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

5. Summary of Significant Accounting Policies (continued)

Employee Benefits

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

Borrowings

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

Provisions

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

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

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

Revenues and Expenses

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

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

5. Summary of Significant Accounting Policies (continued)

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the leased item requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys the right to use the asset.

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

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

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

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

Deferred Income Taxes

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

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

5. Summary of Significant Accounting Policies (continued)

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

Value Added Tax Payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the balance sheet date (VAT deferred) is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Value Added Tax Recoverable

VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

6. Cash and Cash Equivalents

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

	2005	**2004**	**2003**
Petty cash	1 515	701	273
Cash at bank	2 308	14 853	2 036
Bank deposits	-	698	-
Cash to be deposited with banks	6 614	2 237	618
Total cash and cash equivalents	10 437	18 489	2 927

In 2004 the Group deposited USD 411 thousand in AB “Gazprombank” ZAO and USD 288 thousand at LLC “Mosckovsky Creditny Bank” at 1.4% and 2% per annum, respectively, all maturing January 2005. As at 31 December 2005, USD 93 thousand and USD 14 thousand were denominated in EUR and USD, respectively. Except for the above amount, all other cash amounts are denominated in Russian Roubles.

7. Inventories, net

Inventories as of 31 December were comprised as follows:

	2005	2004	2003
Goods for resale	30 776	21 253	11 108
Other inventories	594	348	226
Allowance for obsolescence and inventory losses	(1 258)	(621)	(364)
Total inventories, net	30 112	20 980	10 970

Goods for resale consisted of stocks in the retail outlets and warehouses. Provision for physical losses was estimated on the basis the results of periodic stock-takes. Provision for obsolescence reflected the reduction in the net realizable value due to the goods being damaged, or wholly or partially obsolete.

As of 31 December 2005, no inventory was pledged as collateral for the Group's borrowings. As of 31 December 2004, USD 9,266 thousand of goods for resale were pledged to secure repayment of the loan obtained by the Group from AKB "Moskommertzbank" in April 2004 (see Note 17). The loan was repaid in 2005. No inventory was pledged as of 31 December 2003.

8. Trade Receivables, net

Trade receivables consisted of the following as of 31 December:

	2005	2004	2003
Trade receivables	4 618	2 475	1 645
Allowance for doubtful accounts	(24)	(9)	(11)
Total trade receivables, net	4 594	2 466	1 634

Trade receivables, all of which are denominated in Russian Roubles, included wholesale trade receivables and receivable from trade debtors and franchisees.

9. Advances Paid

Advances paid consisted of the following as of 31 December:

	2005	2004	2003
Advances to suppliers	2 492	1 494	554
Prepaid rent	1 707	889	-
Other	75	139	95
Total advances paid	4 274	2 522	649

10. Taxes Receivable

Taxes receivable consisted of the following as of 31 December:

	2005	2004	2003
VAT recoverable	17 698	9 908	5 647
Prepaid VAT	5 833	1 776	202
Income and other taxes receivable	1 186	1 386	315
Total taxes receivable	24 717	13 070	6 164

The majority of Value Added Tax (VAT) recoverable represented amounts paid in relation to acquisition of fixed assets to be commissioned, construction in progress and the purchase of goods for resale, which will be off-set against VAT on sale of goods to customers. The Company believes that amounts are fully recoverable within a year.

11. Other Current Assets

Other current assets consisted of the following as of 31 December:

	2005	2004	2003
Short-term loans granted	42	525	-
Promissory notes receivable	-	-	1 056
Other current assets	440	218	36
Total other current assets	482	743	1 092

The above loans are denominated in Russian Roubles and stated at cost that approximates their fair value due to short maturity.

12. 12.Property and Equipment

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

	Buildings	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improvements	Total
Cost							
Balance as of 1 January 2003	14 344	8 220	1 043	1 392	15 795	-	40 794
Additions	-	-	-	-	15 968	1 192	17 160
Transfers	23 479	4 251	426	1 156	(29 312)	-	-
Disposals	-	(238)	(108)	(109)	-	-	(455)
Translation difference	2 118	819	95	154	690	50	3 926
Balance as of 31 December 2003	**39 941**	**13 052**	**1 456**	**2 593**	**3 141**	**1 242**	**61 425**
Accumulated depreciation							
Balance as of 1 January 2003	(319)	(2 327)	(177)	(312)	-	-	(3 135)
Depreciation	(791)	(1 691)	(238)	(279)	-	(163)	(3 162)
Disposals	-	101	30	13	-	-	144
Translation difference	(46)	(164)	(17)	(24)	-	(7)	(258)
Balance as of 31 December 2003	**(1 156)**	**(4 081)**	**(402)**	**(602)**	**-**	**(170)**	**(6 411)**
Net book value	**38 785**	**8 971**	**1 054**	**1 991**	**3 141**	**1 072**	**55 014**

12. Property and Equipment (Continued)

	Buildings	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improvements	Total
Cost							
Balance as of 1 January 2004	39 941	13 052	1 456	2 593	3 141	1 242	61 425
Additions	-	-	-	-	39 944	1 037	40 981
Transfers	2 949	7 420	752	389	(11 510)	-	-
Disposals	-	(64)	(15)	(34)	-	-	(113)
Translation difference	2 569	1 084	118	174	1 285	117	5 347
Balance as of 31 December 2004	**45 459**	**21 492**	**2 311**	**3 122**	**32 860**	**2 396**	**107 640**
Accumulated depreciation							
Balance as of 1 January 2004	(1 156)	(4 081)	(402)	(602)	-	(170)	(6 411)
Depreciation	(1 382)	(2 685)	(311)	(399)	-	(422)	(5 199)
Disposals	-	30	3	2	-	-	35
Translation difference	(125)	(353)	(36)	(53)	-	(27)	(594)
Balance as of 31 December 2004	**(2 663)**	**(7 089)**	**(746)**	**(1 052)**	**-**	**(619)**	**(12 169)**
Net book value	**42 796**	**14 403**	**1 565**	**2 070**	**32 860**	**1 777**	**95 471**

	Buildings	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improvements	Total
Cost							
Balance as of 1 January 2005	45 459	21 492	2 311	3 122	32 860	2 396	107 640
Additions	-	-	-	-	77 857	9 500	87 357
Transfers	36 577	17 084	5 232	989	(59 882)	-	-
Disposals	(12)	(298)	(37)	(9)	(706)	-	(1 062)
Translation difference	(2 263)	(1 061)	(172)	(130)	(1 478)	(250)	(5 354)
Balance as of 31 December 2005	**79 761**	**37 217**	**7 334**	**3 972**	**48 651**	**11 646**	**188 581**
Accumulated depreciation							
Balance as of 1 January 2005	(2 663)	(7 089)	(746)	(1 052)	-	(619)	(12 169)
Depreciation	(2 098)	(3 684)	(666)	(489)	-	(984)	(7 921)
Disposals	-	97	31	5	-	-	133
Translation difference	132	317	38	46	-	40	573
Balance as of 31 December 2005	**(4 629)**	**(10 359)**	**(1 343)**	**(1 490)**	**-**	**(1 563)**	**(19 384)**
Net book value	**75 132**	**26 858**	**5 991**	**2 482**	**48 651**	**10 083**	**169 197**

As of 31 December 2005, the gross carrying amount of fully depreciated property and equipment was USD1,476 thousand (2004: USD1,184 thousand).

13. Intangible assets

The analysis of activity in intangible assets was as follows:

	2005			2004			2003		
Cost	**Goodwill**	**Other**	**Total**	**Goodwill**	**Other**	**Total**	**Goodwill**	**Other**	**Total**
Balance at 1 January (as previously reported)	-	-	-	43 157	1 761	44 918	39 994	868	40 862
Effect of restatement (Note 33)	-	-	-	28 656	-	28 656	26 555	-	26 555
Balance at 1 January	76 228	2 467	78 695	71 813	1 761	73 574	66 549	868	67 417
Additions	-	744	744	-	576	576	-	791	791
Translation difference	(2 738)	(102)	(2 840)	4 415	130	4 545	5 264	102	5 366
Balance at 31 December	73 490	3 109	76 599	76 228	2 467	78 695	71 813	1 761	73 574
Accumulated amortization									
Balance at 1 January	-	(844)	(844)	-	(449)	(449)	-	(202)	(202)
Depreciation	-	(462)	(462)	-	(355)	(355)	-	(222)	(222)
Translation difference	-	39	39	-	(40)	(40)	-	(25)	(25)
Balance at 31 December	-	(1 267)	(1 267)	-	(844)	(844)	-	(449)	(449)
Net intangible assets	73 490	1 842	75 332	76 228	1 623	77 851	71 813	1 312	73 125

Other intangible assets included purchased software, licenses and trademarks. Amortization is provided on a straight line basis over the estimated useful lives of the respective assets, which is generally 5 years.

As described in Notes 2 and 3, goodwill represented the difference between the historical cost of the net assets of the subsidiaries acquired upon the Group formation in May 2002 and the carrying amount of the respective investments in the Company's books.

14. Trade Accounts Payable

Trade payables represented current payables to suppliers of goods and services and property and equipment in the amount of USD 49,674 thousand and USD 6,402 thousand respectively (2004: USD24,211 thousand and USD 3,788 thousand respectively) and are denominated in Russian Roubles.

15. Taxes Payable

Taxes payable consisted of the following as of 31 December:

	2005	2004	2003
Value added tax payable	926	950	-
Income tax	1 227	167	896
Property tax	591	276	270
Sales tax	-	-	1 168
Other taxes	455	122	63
	3 199	1 515	2 397

16. Other Non-Current Assets and Other Non-Current Liabilities

Other non-current assets consisted of the following as of 31 December:

	2005	2004	2003
Restricted deposit (Note 17)	-	1 264	-
Long-term rent deposits	506	300	433
Other	90	22	292
Total	596	1 586	725

Other non-current liabilities included the long term portion of payables in relation to IT equipment acquired on credit terms and stated at amortized cost based on cash flows discounted using a borrowing rate of 12% as at 31 December 2005. Repayments are denominated in U.S. Dollars and are scheduled as follows (converted to Roubles at year –end exchange rate):

2006	909
2007	321
Total payments	**1 230**
Less interest	(232)
Carrying amount of liability	**998**
Less short-term portion	(742)
Long-term portion	**256**

17. Short-term Debt

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

	2005	2004	2003
Loan from Dresdner Bank AG (a)	40 000	40 000	-
Bonds issued (b)	41 692	-	-
Other short-term loans (c)	29 281	10 000	-
Loan from a related party (Note 28)	69	72	-
Interest and coupons payable (a)	1 505	1 261	-
Unamortized bond premium (b)	127	-	-
Unamortized loan origination cost	(370)	(489)	-
Total short term debt	112 304	50 844	-

a) In September 2004, the Group entered into a loan agreement with Dresdner Bank AG for USD 40 million bearing 12% annual interest and maturing on 30 March 2006. The loan was funded by credit-linked notes issued by Dresdner Bank AG to a group of investors who were granted a put option on the notes that could be exercised in one year from the date of issuance. As of 31 December 2005 the Group had USD41,227 thousand (as of 31 December 2004: USD41,227 thousand) payable to Dresdner Bank AG, including USD40,000 thousand (USD40,000 thousand as of 31 December 2004) of loan principal and USD1,227 thousand (USD1,227 thousand as of 31 December 2004) of interest payable.

17. Short-term Debts (continued)

Under the Russian currency control regulations, the Group deposited USD1,200 thousand in Gazprombank in respect of the loan, representing 3% of the loan principal. The deposit was repaid in 2005. The loan origination costs of USD555 thousand are amortized over the loan term using the effective interest rate method. The loan agreement contains certain restrictive covenants including limitation on payment of dividends by the Company's subsidiaries. All amounts due to the bank were repaid in 2006.

b) On 21 June 2005, the Group placed its first bonds issue for USD41,692 thousand (RR1,200,000 thousand - par value) with quarterly coupon payments and maturing on 17 June 2008. The coupon rate is 9.75% per annum for coupons 1-6, and will be established by the Group for coupons 7-12. Interest payable at the year end amounted to USD122 thousand. The issue has an early redemption option exercisable on 19 December 2006 at par value. Part of the issue was placed with a premium of USD 187 thousand (RR5,388 thousand) to the bonds par value.

c) In April 2004, the Group obtained a loan of USD 10 million (RR299,772 thousand) from AKB "Moskommertzbank" for the acquisition and reconstruction of retail property bearing 11.25% annual interest and maturing on 14 May 2005. The loan was secured by the Group's trade equipment and goods-for-resale and was repaid on maturity.

In October 2005, the Group obtained a credit line from JSC "Commerzbank" Eurasia" for 1 year. The credit facility can be utilized in separate short-term tranches in 3 currencies: EUR, USD and RUR. Interest accrues on each tranche disbursed under the credit line at the following rates: for tranches in EUR – at a rate of EURIBOR plus a margin of 4% per annum and, for tranches in USD – at a rate of LIBOR plus a margin of 4% per annum, for tranches in RUR – at a rate determined by the bank. As of 31 December 2005, the outstanding amount of the loan was USD10,057 thousand, including USD9,944 thousand of loan principal and USD 113 thousand of interest payable. The outstanding liability as at 31 December 2005 is denominated in EUR.

In December 2005 the Group concluded a credit line agreement with AB Gazprombank for a maximum of RR530,000 thousand (USD 18,413 thousand) repayable on 24 July 2006 bearing 9.5% annual interest. As of 31 December 2005, the drawn amount was USD 7,433 thousand.

In November 2005, the Group obtained a loan in the amount of USD 10 million (RR 287,593 thousand) from AKB "MDM-Bank" bearing 9.15% annual interest and maturing on 1 March 2006. As at 31 December 2005, the outstanding loan balance amounted to USD 10,000 thousand.

Other short term loans in the total amount of USD 1,905 thousand as at 31 December 2005 were denominated in RR and USD bearing 7.5 % interest rates on average.

18. Other Current Liabilities

	2005	2004	2003
Wages and social taxes	3 348	474	81
Commission payable	299	489	408
Other payables	455	370	262
Total other current liabilities	4 102	1 333	751

19. Charter Capital and Share Capital

Prior to November 2005, the Company had a registered charter capital of RR2,725,146 thousand (USD94,681 thousand at exchange rate of 31 December 2005) (RR2,959,236 thousand (USD102,814 thousand at exchange rate of 31 December 2005) after inflation adjustment) as a limited liability company. In accordance with the charter, the Company was obliged to distribute 25% of net profits determined as per the Russian statutory accounts as dividends. Each participant had a right to a dividend distribution proportional to its ownership interest. If a participant decided to exit the Company, the Company was obliged to repay the actual value of the participant's interest which was determined as its proportional share of net assets reported in the Russian statutory accounts.

At the date of the state registration, the Company’s authorized capital amounted to USD 86,605 thousand (RR 2,752,673 thousand) and was distributed between participants as follows: USD 43,735 thousand (50.5%) – ZAO “Yukos-M”; USD 25,722 thousand (29.7%) – A. V. Samonov; USD 8,574 thousand (9.9%) – S. A. Lomakin; USD 8,574 thousand (9.9%) – A. K. Khachatryan. These amounts were fully paid in 2002 through cash and in-kind contribution by the participants.

In October 2003, ZAO “Yukos-M” sold its interest to LLC “Aktiv-Holding” (16.5%), ZAO “Kalina” (16.5%), ZAO “Korall” (16.5%) and LLC “Kopeyka Development” (1%), a wholly owned subsidiary of the Company. Subsequently, the Company registered a reduction of its authorized capital for the amount of interest purchased by LLC “Kopeyka Development”. The difference between the nominal value of this interest (USD 897 thousand) and the amount paid by LLC “Kopeyka Development” to ZAO “Yukos-M” (USD 1,179 thousand) was charged to cumulative surplus of net assets as a redemption of participant’s interest. Accordingly, as of 31 December 2003, the authorized capital amounted to USD 92,520 thousand (RR 2,725,146 thousand) and was distributed as follows: USD 15,420 thousand (16⅔%) – LLC “Aktiv-Holding”; USD 15,420 thousand (16⅔%) –ZAO “Kalina”; USD 15,420 thousand (16⅔%) – ZAO “Korall”; USD 27,756 (30%) – A. V. Samonov; USD 9,252 (10%) – S. A. Lomakin; 9,252 (10%) – A. K. Khachatryan.

In 2004, LLC “Aktiv-Holding”, ZAO “Kalina” and ZAO “Korall” sold their ownership interest to Eckleton Ltd, a BVI legal entity.

In November 2005, the Company was reorganized into an open joint stock company. As part of the reorganization 2,725,146 thousand common shares with a par value of RR1 (USD0.0347) each were issued to the founding shareholders (former participants). Ownership interests previously held by the participants were exchanged into a corresponding number of common shares.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. JSC “Trade House “Kopeyka” had approximately USD 16 thousand of undistributed and unreserved earnings as at 31 December 2005 (2004: USD3 thousand; 2003: USD418 thousand). In addition, the Company’s share in the undistributed and unreserved earnings of subsidiaries was approximately USD16,091 thousand as at 31 December 2005 (2004: USD13,558 thousand; 2003: USD5,630 thousand).

20. Dividends

In August and December 2005, the Company declared dividend distributions in the amount of USD3,005 thousand and USD6,233 thousand, respectively.

In October 2004, the Company declared dividend distributions to its participants in the amount of USD8,860 thousand. Dividends were fully paid in 2004.

21. Cost of Goods Sold

Cost of goods sold for the years ended 31 December was comprised of the following:

	2005	**2004**	**2003**
Goods for resale	462 837	295 982	174 988
Shortage of goods	5 451	3 510	3 238
Discounts provided by suppliers	(13 879)	(6 290)	(3 102)
Total cost of goods sold	454 409	293 202	175 124

22. Other Revenues

Other revenues for the years ended 31 December comprised the following:

	2005	**2004**	**2003**
Rent	2 883	1 599	562
Other	389	91	519
Total other revenues	3 272	1 690	1 081

23. Selling, General and Administrative Expenses

Selling, general and administrative expenses, excluding depreciation and amortization and store pre-opening costs for the years ended 31 December comprised the following:

	2005	2004	2003
Personnel	32 070	19 705	12 249
Commissions to franchisees	13 370	5 249	641
Rent	11 061	6 302	4 555
Materials and supplies	3 024	1 470	826
Marketing and advertising	4 979	3 537	2 237
Security	3 656	2 489	1 332
Repair and maintenance	2 581	1 451	1 448
Taxes other than income tax	2 600	894	921
Utilities	3 446	1 528	593
Bank charges	629	636	314
Audit, consulting and legal fees	1 465	1 054	276
Transportation	164	106	240
Communication costs	811	435	345
Insurance	203	64	216
Other	850	42	411
Total selling, general and administrative expenses	80 909	44 962	26 604

24. Pre-opening costs

Pre-opening costs for the years ended 31 December comprised the following:

	2005	2004	2003
Rent	3 878	1 075	288
Transportation	271	23	22
Utilities	72	17	-
Communication costs	6	1	-
Total pre-opening costs	4 227	1 116	310

25. Financial Income/(Expense), net

Financial income and expense, net for the years ended 31 December was comprised as follows:

	2005	2004	2003
Interest income	163	113	693
Interest expense	(8 702)	(1 892)	(60)
Total finance income/(expense), net	(8 539)	(1 779)	633

26. Income Taxes

Income tax expense consisted of the following amounts:

	2005	2004	2003
Current income tax expense	7 097	4 260	1 878
Tax on intra-group dividends	1 120	428	89
Deferred income tax (benefit)/expense	(1 412)	953	667
Total income tax expense	6 805	5 641	2 634

Reconciliation between the income tax expense reported in the accompanying income statements and income before taxes multiplied by the statutory tax rate of 24% is as follows:

	2005	2004	2003
Tax expense computed on income before taxes at the statutory tax rate of 24%	3 874	5 006	2 281
Tax on intra - group dividends	1 120	428	89
Non-deductible inventory shortages	1 223	-	-
Effect of other non-deductible expenses	588	207	264
Income tax expense	6 805	5 641	2 634

The deferred tax balances were calculated by applying the statutory tax rate of 24% in effect at the respective balance sheet date to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the accompanying balance sheets and are comprised of the following:

	2005	2004	2003
Effect of temporary differences resulting in deferred tax asset:			
Loss carried forward	1 570	-	-
Vacation accrual	159	-	-
Valuation of goods for resale	526	149	87
Valuation of accounts receivable	18	9	19
Other	45	-	-
Total deferred tax asset	2 318	158	106
Effect of temporary differences resulting in deferred tax liability:			
Property, plant and equipment valuation	4 105	3 654	2 708
Other assets valuation	808	634	357
Total deferred tax liability	4 913	4 288	3 065
Net deferred tax liability	2 595	4 130	2 959

In 2005, several subsidiaries of the Company that recently started operations incurred tax losses in the amount of USD 6,657 thousand. These losses are available for offset against future taxable profits within the following 10 years. Management anticipates that the associated tax benefit will be fully realized within the allowable carry forward period.

27. Earnings per Share

As described in Note 19, the Company was reorganized into a joint stock company in November 2005. The accompanying earnings per share calculation are presented as if 2,725,146 thousand shares issued upon reorganization were outstanding for all periods presented.

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

The weighted average number of ordinary shares outstanding during the period and for all periods presented is adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources.

The Group has no potential dilutive ordinary shares. Therefore, the diluted earnings per share equal the basic earnings per share.

	2005	2004	2003
Weighted average number of ordinary shares outstanding (thousands)	2 725 146	2 725 146	2 725 146
Net profit for the year attributable to shareholders	9 337	15 217	6 869
Earnings per share, US Cents	0.34	0.56	0.25

28. Related Party Transactions

As of 31 December 2005, 50% of the Company is owned by the founders of the Company (Mrs. Samonov, Lomakin and Khachatryan) and 50% is owned by Eckleton Limited (British Virgin Islands). Eckleton is a fund indirectly owned by Financial Corporation “Uralsib”.

The Group companies entered into transactions with related parties who are not members of the Group. In the opinion of management, these transactions were conducted on normal commercial terms. The transactions, along with related balances included as at 31 December and for the years then ended are presented in the following table and the notes below.

	Amounts due from/(to)		
	2005	2004	2003
LLC “TD Ryabina” (a)	216	174	115
ZAO ChOP “Goodwill-Garant” (b)	(423)	(47)	(21)
LLC “Strek” (c)	-	20	20
ZAO “Kofeinaya Fabrika “Select” (d)	(39)	(122)	(157)
OAO "Gorizont" (f)	29	18	(3)

28. Related Party Transactions (continued)

a) LLC “TD Ryabina” (LLC “Torgovy Dom “Ryabina”) operates a retail food store in the Moscow region under a franchise agreement. Owners of LLC “Torgovy Dom “Ryabina” transferred their ownership interests into a trust management to the Company who is acting as a trustee. Receivable balances of USD 174 thousand and USD216 thousand were included in trade receivables as of 31 December 2004 and 2005, respectively. Total volume of retail sales through LLC “Torgovy Dom “Ryabina” were USD6,933 thousand and USD7,940 thousand in 2004 and 2005, respectively. Commissions paid in 2005 amounted to USD438 thousand. Repair works performed by the Group at the respective store amounted to USD433 thousand in 2004.

b) ZAO “ChOP Goodwill-Garant”, LLC “Strek” and ZAO “Kofeinaya fabrika “Select” are controlled by the Company’s shareholders. The balances due to these entities were accounted for within other current liabilities. Transactions with these companies included receiving of rent, provision of security services and other services necessary for day-to-day business activities.

ZAO “ChOP Goodwill-Garant” provided security services to the Group in the amount of USD 3,590 thousand, USD 504 thousand and USD 213 thousand in total in 2005, 2004 and 2003, respectively.

c) Receivable from LLC “Strek” represented prepayments made by the Group for fixed assets in 2004.

d) ZAO “Kofeinaya Fabrika “Select” provided the Group with retail floor space for rent. In 2003, the rented properties were acquired by the Group for USD 601 thousand. The Group continued to pay fees for some utility services provided by the entity in the amount of USD 91 thousand and USD 75 thousand in 2004 and 2005, respectively. On 28 December 2004, LLC “Kofeinaya Fabrika “Select” provided the Group with a loan in amount of USD 72 thousand bearing 13% annual interest and maturing on 27 December 2005, which was subsequently extended to 27 December 2006.

e) The Group has accounts with JSC “Uralsib” Bank. Cash balances in these accounts were USD 205 thousand at 31 December 2005 (2004: USD 3 thousand; 2003: nil). In addition, LLC “FC Uralsib” acts as an underwriter in the Company’s local bond placements and planned IPO. During 2005, the respective commissions paid to JSC “Uralsib” Bank were USD200 thousand.

f) JSC “Gorizont” is an entity where the Company’s shareholders have significant ownership interest. It provides office space for rent to the companies of the Group. The corresponding rental expense amounted to USD 612 thousand, USD 404 thousand and USD 269 thousand in 2005, 2004 and 2003, respectively. The outstanding balances represent the amounts of prepaid rental costs.

29. Compensation to Key management Personnel

Key management personnel comprise members of Management Board and Board of Directors of the Group, totaling 7 persons as at 31 December 2005 (2004: 8; 2003: 4). Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to USD 842 thousand for the year ended 31 December 2005 (2004: USD 652 thousand; 2003: USD 335 thousand).

30. Commitments and Contingencies

Operating Environment of the Group

The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

Taxation

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

As of 31 December 2005, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

The Group's policy is to accrue for tax provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 31 December 2005.

Management's estimate of the amount of possible liabilities, including fines, that could be incurred in the event that the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group is approximately USD8 million at 31 December 2005. Should the Russian tax authorities decide to issue a claim and prove successful in the court, they would be entitled to recover the amount claimed, together with fines amounting to 20% of such amount and interest at the rate of 1/300 of the Central Bank of Russia rate for each day of delay for late payment of such amount. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in the accompanying financial statements.

Following VAT reviews performed by the Tax Inspectorate in 2004 and 2005 for the period of 2001-2004 the Group received tax claims in a total amount of USD3,826 thousand, including fines and penalties. These claims mostly related to the application of Constitutional court decision on deductibility of input VAT paid from the borrowed funds. In March 2005 the Group paid USD3,527 thousand of these tax claims and penalties. The Group disputed these tax claims in court. As of the date of preparation of these financial statements the Group won the claims in the amount of USD2,959 thousand in court of first three instances and the claims in the amount of USD568 thousand in the court of first two instances. Therefore, management expects that the respective amounts due from the tax authorities (Note 10) will be repaid.

30. Commitments and Contingencies (continued)

Taxation (continued)

Based on series of VAT reviews performed by the Tax Inspectorate in 2005 and 2006 the Group received additional tax claims in a total amount of USD2,052 thousand as of the date of preparation of these financial statements. These claims related to deductibility of input VAT by the Group. As the Group has a history of successful defence against similar claims, management expects that the ultimate outcome of these claims will not have a significant impact on the financial position of the Group and thus no provision for contingent liability was recorded in the accompanying financial statements.

Legal Proceedings

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

Purchase and Lease Commitments

As of 31 December 2005, the Group had a number of outstanding cancelable and non-cancelable long-term lease contracts priced in US Dollars and Euros with lease terms varying from 3 to 10 years. The rent is paid when incurred on a monthly basis. Future minimum rentals payable under the non-cancelable operating leases (converted to Roubles at year–end exchange rate) were as follows as at 31 December 2005:

Within one year	**11,194**
After one year but not more than five years	**41,019**
More than five years	**25,340**

As of 31 December 2005 the Group’s capital commitments under construction contracts, mainly related to leasehold improvements, amounted to USD6,951 thousand. Purchase commitments for goods for resale as of 31 December 2005 amounted to USD5,601 thousand. Also as of 31 December 2005, the Group had unfulfilled purchase commitments for trade equipment amounting to USD9,246 thousand.

31. Financial Risk Management

The Group’s principal financial instruments comprise bank loans and overdrafts, bonds issued, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. As further described in Note 32, in 2005 the Group entered into a currency forward contract that hedges its USD debt obligations. During the year the Group did not undertake trading in financial instruments.

31. Financial Risk Management (continued)

Credit Risk

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

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

Foreign Exchange Risk

The Group attracted a substantial amount of foreign currency denominated borrowings and as a result, is exposed to foreign exchange risk. Foreign currency denominated liabilities (see Note 17) give rise to foreign exchange exposure. The Group has no significant foreign currency denominated assets.

To mitigate foreign exchange risks, associated with foreign denominated borrowings, the Group concluded a currency forward contract (Note 32). The management believes that the Group is largely secured from foreign exchange risks with the currency forward contract.

Interest Rate Risk

The Group’s income and operating cash flows are dependent on changes in market interest rates. The Group is exposed to interest rate risk through market rate fluctuations on its interest-bearing borrowings. The majority of interest rates on the Group’s bank deposits and borrowings are only fixed on a short-term basis; these are disclosed in Notes 6 and 17.

Fair values of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group’s financial instruments, which are carried in the consolidated balance sheet:

	Carrying amount			Fair value		
	2005	2004	2003	2005	2004	2003
Financial assets						
Forward currency contract	158	-	-	158	-	-
Trade and other receivables	34 663	20 387	10 264	34 663	20 387	10 264
Cash and cash equivalents	10 437	18 489	2 927	10 437	18 489	2 927
Financial liabilities						
Borrowings	112 304	50 844	-	112 304	50 844	-
Trade and other payables	63 808	883 882	520 890	63 808	883 882	520 890

31. Financial Risk Management (continued)

The fair values of borrowings, trade and other receivables and trade and other payables are based on cash flows discounted using the market interest rates. Fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity.

32. Forward currency contract

At 31 December 2005 the Group held a forward exchange contract in connection with expected future repayment of the loan from Dresdner Bank AG (Note 17) for which the Group has firm commitment. The forward contract is to buy USD 38,000 thousand at the exchange rate of RR28.70 to USD1 and matures on 28 March 2006. As at 31 December 2005 the forward rate of contracts with similar maturity was RR28.82 to USD1. Gain on this contract is included within foreign currency gains and losses in the income statement.

33. Restatement of opening shareholders' equity as at 1 January 2003

During 2005, management of the Company obtained an independent valuation of the businesses contributed at the formation of the Group (Note 2). This valuation identified a significant difference between the amount of investments in subsidiaries that was used to determine the deemed cost of goodwill as described in Note 3, and the fair value of ownership interests obtained by the parent upon the formation of the Group. The increase of the cost of investments resulted in a restatement of the previously reported amount of goodwill.

34. Subsequent Events

In February 2006, the Company floated its second bond issue in the amount of USD 138,973 thousand (RR 4 billion). These bonds are repayable in 6 years and have 24 quarterly coupons. The coupon rate was set at 8.70% p.a. for 1-12 quarterly coupons. To manage the aggregate debt burden effectively, the issuer caused USD 72,961 thousand (RR2.1 billion) of the issued bonds to be purchased by its subsidiary, LLC "Kopeyka-Development". These bonds will then be placed in the secondary market, on as needed basis.

In February 2006, LLC "Kopeyka Moscow" signed a commission contract with a retail chain based in Nizhni Novgorod, Russia which consists of 48 stores and supermarkets. In March 2006 the Group agreed to provide Rouble denominated loans in the total amount of RR570,000 thousand (USD19,803 thousand) to the same group of companies. As at the date of issuance of these financial statements, the actual amounts of loans provided to this group of companies was RR396,568 thousand (USD13,778 thousand). In addition, the Group has agreed to provide guarantees in the total amount of up to RR1,000,000 thousand (USD34,743 thousand) in respect of the outstanding debts of these companies under loan agreements with banks. As at the date of issuance of these financial statements the total amount of such guarantees already executed was RR881,000 thousand (USD30,609 thousand) .

In February 2006, AKB "MDM-Bank" agreed to provide to the Group a credit line with a maximum available funds of USD 20 million for the period to 1 March 2007.

On 4 April 2006, the Group acquired a 100% interest in LLC "Trade Firm "Samara-Product", a retail chain based in Samara, Russia. The chain comprises 18 stores in the city of Samara, two in the city of Novokuibyshevsk, one in the city of Chapayevsk, and one in the city of Dmitrovograd. The preliminary purchase consideration amounted to RR642,000 thousand (USD22,305 thousand) which is subject to further adjustment based on the net working capital of the acquired entity. It is not practicable at this point to disclose information on purchase price allocation for this acquisition.

In March the Company's shareholders approved issuance of 408,774,640 ordinary shares with a par value of RR1 each. The shares will be subscribed by the existing shareholders.