JSC “Trade House “KOPEYKA”

Consolidated Financial Statements

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

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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 Russian Roubles)

	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**	4 869 900	2 649 192	1 620 409
Intangible assets, net	**13**	2 168 229	2 160 269	2 153 874
Deferred income tax asset	**26**	66 727	4 379	3 126
Other non-current assets	**16**	17 167	44 019	21 368
		7 122 023	**4 857 859**	**3 798 777**
Current assets				
Inventories, net	**7**	866 712	582 161	323 118
Trade receivables, net	**8**	132 220	68 440	48 138
Advances paid	**9**	123 008	69 974	19 119
Taxes receivable	**10**	711 415	362 675	181 565
Cash and cash equivalents	**6**	300 413	513 054	86 222
Forward currency contract	**32**	4 560	-	-
Other current assets	**11**	13 839	20 607	32 072
		2 152 167	**1 616 911**	**690 234**
TOTAL ASSETS		**9 274 190**	**6 474 770**	**4 489 011**
LIABILITIES AND EQUITY				
Non-current liabilities				
Deferred income tax liability	**26**	141 395	118 996	90 270
Other non-current liabilities	**16**	7 357	27 930	-
Net assets attributable to participants		-	4 061 036	3 877 851
		148 752	**4 207 962**	**3 968 121**
Equity				
Share capital	**19**	2 959 236	-	-
Retained earnings		1 104 623	-	-
		4 063 859	**-**	**-**
Current liabilities				
Trade payables	**14**	1 614 013	776 946	428 171
Taxes payable	**15**	92 072	42 029	70 612
Short term debt	**17**	3 232 394	1 410 856	-
Dividends payable	**20**	5 039	-	-
Other current liabilities	**18**	118 061	36 977	22 107
		5 061 579	**2 266 808**	**520 890**
TOTAL LIABILITIES AND EQUITY		**9 274 190**	**6 474 770**	**4 489 011**

A.V. Samonov, President of the Company
28 April 2006

V. I. Shlepov, Finance Director
28 April 2006

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 Russian Roubles)

	Notes	2005	2004	2003
Revenues				
Retail revenues - own stores		12 697 405	8 681 776	5 015 487
Retail and wholsale revenues - franchised stores		3 469 910	1 810 810	1 541 569
Other revenues	**22**	92 545	48 693	33 182
Total revenues		**16 259 860**	**10 541 279**	**6 590 238**
Cost of goods sold	**21**	(12 853 592)	(8 448 616)	(5 374 138)
Gross profit		**3 406 268**	**2 092 663**	**1 216 100**
Selling, general and administrative expenses	**23**	(2 288 619)	(1 295 580)	(816 405)
Pre-opening costs	**24**	(119 558)	(32 145)	(9 518)
Depreciation and amortization		(237 123)	(160 049)	(103 860)
Other operating expenses		(6 290)	(8 036)	(14 114)
Profit from operating activities		**754 678**	**596 853**	**272 203**
Foreign exchange (loss)/gain, net		(56 545)	55 421	-
Financial (expense)/income, net	**25**	(241 524)	(51 251)	19 417
Profit before income taxes		**456 609**	**601 023**	**291 620**
Income tax expense	**26**	(192 486)	(162 538)	(80 841)
Net profit		**264 123**	**438 485**	**210 779**
Earnings per share (in Russian Roubles)				
- basic, for the profit for the year	**27**	0.10	0.16	0.08

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 Russian Roubles)

	Share Capital	Retained Earnings	Charter Capital	Cumulative surplus of net assets	Total
At 1 January 2003 (as previously reported)	**-**	**-**	**2 989 128**	**(84 464)**	**2 904 664**
Effect of restatement of goodwill (Note 33)	-	-	-	844 053	844 053
At 1 January 2003 (as restated)	**-**	**-**	**2 989 128**	**759 589**	**3 748 717**
Redemption of participant’s interest (Note 19)	-	-	(29 892)	(6 299)	(36 191)
Net profit	-	-	-	210 779	210 779
Dividends (Note 20)	-	-	-	(45 454)	(45 454)
At 31 December 2003	**-**	**-**	**2 959 236**	**918 615**	**3 877 851**
Net profit	-	-	-	438 485	438 485
Dividends (Note 20)	-	-	-	(255 300)	(255 300)
At 31 December 2004	**-**	**-**	**2 959 236**	**1 101 800**	**4 061 036**
Issuance of shares in connection with legal reorganization (Note 19)	2 959 236	1 101 800	(2 959 236)	(1 101 800)	-
Net profit	-	264 123	-	-	264 123
Dividends (Note 20)	-	(261 300)	-	-	(261 300)
At 31 December 2005	**2 959 236**	**1 104 623**	**-**	**-**	**4 063 859**

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 Russian Roubles)

	2005	2004	2003
Cash flows from operating activities			
Profit before income taxes	456 609	601 023	291 620
Adjustments for:			
Interest income	(4 616)	(3 266)	(21 275)
Interest expense	246 140	54 517	1 858
Shortage of goods	154 177	101 129	99 362
Depreciation and amortization	237 123	160 049	103 860
Loss from disposal of property and equipment	6 770	1 178	5 376
Foreign exchange loss/(gain)	56 545	(55 421)	-
Operating cash flows before working capital changes	**1 152 748**	**859 209**	**480 801**
(Increase)/decrease in trade receivable and advances paid	(116 814)	(71 157)	158 245
Increase in inventories	(438 728)	(360 172)	(182 778)
Increase in taxes receivable	(352 885)	(108 835)	(115 982)
Increase in trade and other accounts payable	818 406	264 075	62 433
Increase/(decrease) in taxes payable, other than income tax	19 338	(6 639)	-
Decrease / (increase) in other assets	29 060	23 514	(5 877)
Cash generated from operations	**1 111 125**	**599 995**	**396 842**
Interest paid	(237 803)	(19 538)	(1 858)
Income taxes paid	(197 585)	(184 747)	(55 263)
Net cash flows from operating activities	**675 737**	**395 710**	**339 721**
Cash flows from investing activities			
Purchases of property and equipment	(2 377 193)	(1 097 778)	(531 298)
Proceeds from the sale of property and equipment	19 487	1 063	4 165
Purchases of intangible assets	(21 035)	(16 595)	(24 262)
Interest received	4 616	3 266	21 275
Net cash used in investing activities	**(2 374 125)**	**(1 110 044)**	**(530 120)**
Cash flows from financing activities			
Redemption of participants' interest	-	-	(36 191)
Proceeds from bonds issue	1 198 018	-	-
Proceeds from/(repayment of) short-term borrowings	558 637	1 410 314	(256 052)
Repayment of other non-current liability	(14 647)	(13 848)	-
Dividends paid	(256 261)	(255 300)	(45 454)
Net cash provided by/(used) in financing activities	**1 485 747**	**1 141 166**	**(337 697)**
Net (decrease)/increase in cash and cash equivalents	**(212 641)**	**426 832**	**(528 096)**
Cash and cash equivalents at beginning of year	**513 054**	**86 222**	**614 318**
Cash and cash equivalents at end of year	**300 413**	**513 054**	**86 222**

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 the 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 $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 value 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 RR 446,130 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.

Foreign Currency Translation

The consolidated financial statements are presented in the national currency of the Russian Federation, Russian Rouble (RR), which is the functional currency of the Group. 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 RR 2,115,224 thousand (2004 and 2003: RR 2,115,224 thousand).

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	43 610	19 460	8 050
Cash at bank	66 423	412 146	59 968
Bank deposits	-	19 377	-
Cash to be deposited with banks	190 380	62 071	18 204
Total cash and cash equivalents	300 413	513 054	86 222

In 2004 the Group deposited USD 411 thousand (RR11,317 thousand) in AB "Gazprombank" ZAO and RR8,000 thousand at LLC "Mosckovsky Creditny Bank" at 1.4% and 2% per annum, respectively, all maturing January 2005. As at 31 December 2005, RR2,681 thousand and RR389 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	885 816	589 742	327 187
Other inventories	17 109	9 659	6 652
Allowance for obsolescence and inventory losses	(36 213)	(17 240)	(10 721)
Total inventories, net	866 712	582 161	323 118

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, RR257,129 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	132 925	68 687	48 470
Allowance for doubtful accounts	(705)	(247)	(332)
Total trade receivables, net	132 220	68 440	48 138

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	71 721	41 449	16 313
Prepaid rent	49 139	24 668	-
Other	2 148	3 857	2 806
Total advances paid	123 008	69 974	19 119

10. Taxes Receivable

Taxes receivable consisted of the following as of 31 December:

	2005	2004	2003
VAT recoverable	509 383	274 924	166 329
Prepaid VAT	167 898	49 270	5 948
Income and other taxes receivable	34 134	38 481	9 288
Total taxes receivable	711 415	362 675	181 565

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	1 199	14 577	-
Promissory notes receivable	-	-	31 103
Other current assets	12 640	6 030	969
Total other current assets	13 839	20 607	32 072

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

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	455 912	261 258	33 139	44 246	502 044	-	1 296 599
Additions	-	-	-	-	490 019	36 584	526 603
Transfers	720 524	130 467	13 078	35 482	(899 551)	-	-
Disposals	-	(7 293)	(3 326)	(3 347)	-	-	(13 966)
Balance as of 31 December 2003	**1 176 436**	**384 432**	**42 891**	**76 381**	**92 512**	**36 584**	**1 809 236**
Accumulated depreciation							
Balance as of 1 January 2003	(9 782)	(71 422)	(5 424)	(9 560)	-	-	(96 188)
Depreciation	(24 281)	(51 889)	(7 315)	(8 575)	-	(5 001)	(97 061)
Disposals	-	3 110	912	400	-	-	4 422
Balance as of 31 December 2003	**(34 063)**	**(120 201)**	**(11 827)**	**(17 735)**	**-**	**(5 001)**	**(188 827)**
Net book value	**1 142 373**	**264 231**	**31 064**	**58 646**	**92 512**	**31 583**	**1 620 409**

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	1 176 436	384 432	42 891	76 381	92 512	36 584	1 809 236
Additions	-	-	-	-	1 150 980	29 892	1 180 872
Transfers	84 981	213 799	21 674	11 212	(331 666)	-	-
Disposals	-	(1 848)	(427)	(974)	-	-	(3 249)
Balance as of 31 December 2004	**1 261 417**	**596 383**	**64 138**	**86 619**	**911 826**	**66 476**	**2 986 859**
Accumulated depreciation							
Balance as of 1 January 2004	(34 063)	(120 201)	(11 827)	(17 735)	-	(5 001)	(188 827)
Depreciation	(39 826)	(77 378)	(8 964)	(11 509)	-	(12 173)	(149 850)
Disposals	-	876	79	55	-	-	1 010
Balance as of 31 December 2004	**(73 889)**	**(196 703)**	**(20 712)**	**(29 189)**	**-**	**(17 174)**	**(337 667)**
Net book value	**1 187 528**	**399 680**	**43 426**	**57 430**	**911 826**	**49 302**	**2 649 192**

	Buildings	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Leasehold improvements	Total
Cost							
Balance as of 1 January 2005	1 261 417	596 383	64 138	86 619	911 826	66 476	2 986 859
Additions	-	-	-	-	2 202 289	268 723	2 471 012
Transfers	1 034 641	483 237	147 986	27 967	(1 693 831)	-	-
Disposals	(334)	(8 426)	(1 040)	(252)	(19 973)	-	(30 025)
Balance as of 31 December 2005	**2 295 724**	**1 071 194**	**211 084**	**114 334**	**1 400 311**	**335 199**	**5 427 846**
Accumulated depreciation							
Balance as of 1 January 2005	(73 889)	(196 703)	(20 712)	(29 189)	-	(17 174)	(337 667)
Depreciation	(59 350)	(104 200)	(18 837)	(13 840)	-	(27 820)	(224 047)
Disposals	1	2 754	881	132	-	-	3 768
Balance as of 31 December 2005	**(133 238)**	**(298 149)**	**(38 668)**	**(42 897)**	**-**	**(44 994)**	**(557 946)**
Net book value	**2 162 486**	**773 045**	**172 416**	**71 437**	**1 400 311**	**290 205**	**4 869 900**

As of 31 December 2005, the gross carrying amount of fully depreciated property and equipment was RR42,484 thousand (2004: RR 32,865 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)	-	-	-	1 271 171	51 861	1 323 032	1 271 171	27 599	1 298 770
Effect of restatement (Note 33)	-	-	-	844 053	-	844 053	844 053	-	844 053
Balance at 1 January (as restated)	2 115 224	68 456	2 183 680	2 115 224	51 861	2 167 085	2 115 224	27 599	2 142 823
Additions	-	21 036	21 036	-	16 595	16 595	-	24 262	24 262
Balance at 31 December	2 115 224	89 492	2 204 716	2 115 224	68 456	2 183 680	2 115 224	51 861	2 167 085
Accumulated amortization									
Balance at 1 January	-	(23 411)	(23 411)	-	(13 212)	(13 212)	-	(6 412)	(6 412)
Amortization for the year	-	(13 076)	(13 076)	-	(10 199)	(10 199)	-	(6 799)	(6 799)
Balance at 31 December	-	(36 487)	(36 487)	-	(23 411)	(23 411)	-	(13 211)	(13 211)
Net intangible assets	2 115 224	53 005	2 168 229	2 115 224	45 045	2 160 269	2 115 224	38 650	2 153 874

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 RR1,429,740 thousand and RR184,273 thousand, respectively (2004: RR671,845 thousand and RR105,101 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	26 658	26 375	-
Income tax	35 330	4 626	26 393
Property tax	17 014	7 663	7 954
Sales tax	-	-	34 393
Other taxes	13 070	3 365	1 872
	92 072	42 029	70 612

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)	-	35 067	-
Long-term rent deposits	14 568	8 331	12 757
Other	2 599	621	8 611
Total	17 167	44 019	21 368

Other non-current liabilities included the long term portion of payables in relation to IT equipment acquired on credit terms and are 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	26 156
2007	9 246
Total payments	**35 402**
Less interest	(6 691)
Carrying amount of liability	**28 711**
Less short-term portion	(21 354)
Long-term portion	**7 357**

17. Short-term Debt

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

	2005	2004	2003
Loan from Dresdner Bank AG (a)	1 151 300	1 109 948	-
Bonds issued (b)	1 200 000	-	-
Other short-term loans (c)	842 772	277 487	-
Loan from a related party (Note 28)	1 985	1 985	-
Interest and coupons payable (a)	43 316	34 979	-
Unamortized bond premium (b)	3 667	-	-
Unamortized loan origination cost	(10 646)	(13 543)	-
Total short term debt	3 232 394	1 410 856	-

a) In September 2004, the Group entered into a loan agreement with Dresdner Bank AG for USD 40 million (RR 1,168,684 thousand) 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 RR 1,186,607 thousand (as of 31 December 2004 – RR 1,143,986 thousand) payable to Dresdner Bank AG, including RR 1,151,300 thousand (RR 1,109,948 thousand as of 31 December 2004) of loan principal and RR 35,307 thousand (RR34,038 thousand as of 31 December 2004) of interest payable.

17. Short-term Debt (continued)

Under the Russian currency control regulations, the Group deposited RR 35,067 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 RR 16,215 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 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 RR 3,516 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 RR5,388 thousand to the bonds par value.

c) In April 2004, the Group obtained a loan of USD 10 million (RR 299,772 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 RR289,461 thousand, including RR286,197 thousand of loan principal and RR3,264 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 repayable on 24 July 2006 bearing 9.5% annual interest. As of 31 December 2005, the drawn amount was RR213,934 thousand.

In November 2005, the Group obtained a loan in the amount of USD 10 million (RR287,593 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 RR287,825 thousand.

Other short term loans in the total amount of RR54,816 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	96 361	13 160	2 391
Commission payable	8 603	13 575	12 024
Other payables	13 097	10 242	7 692
Total other current liabilities	118 061	36 977	22 107

19. Charter Capital and Share Capital

Prior to November 2005, the Company had a registered charter capital of RR2,725,146 thousand (RR 2,959,236 thousand 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 RR 2,752,673 thousand (RR 2,989,128 thousand after inflation adjustment) and was distributed between participants as follows: RR 1,390,100 thousand (50.5%) – ZAO “Yukos-M”; RR 817,543 thousand (29.7%) – A. V. Samonov; RR 272,515 thousand (9.9%) – S. A. Lomakin; RR 272,515 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 (RR 27,527 thousand – RR 29,892 thousand after inflation adjustment) and the amount paid by LLC “Kopeyka Development” to ZAO “Yukos-M” (RR 36,191 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 RR 2,725,146 thousand (RR 2,959,236 thousand after inflation adjustment) and was distributed as follows: RR 454,190 thousand (16⅔%) – LLC “Aktiv-Holding”; RR 454,190 thousand (16⅔%) –ZAO “Kalina”; RR 454,190 thousand (16⅔%) – ZAO “Korall”; RR 817,544 thousand (30%) – A. V. Samonov; RR 272,515 thousand (10%) – S. A. Lomakin; RR 272,515 thousand (10%) – A. K. Khachatryan.

In 2004, LLC “Aktiv-Holding”, ZAO “Kalina” and ZAO “Korall” sold their ownership interests 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 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 RR455 thousand of undistributed and unreserved earnings as at 31 December 2005 (2004: RR 88 thousand; 2003: RR 12,301 thousand). In addition, the Company’s share in the undistributed and unreserved earnings of subsidiaries was approximately RR 463,140 thousand as at 31 December 2005 (2004: RR 376,218 thousand; 2003: RR 165,841 thousand).

20. Dividends

In August and December 2005, the Company declared dividend distributions in the amount of RR 85,000 thousand and RR 176,300 thousand, respectively.

In October 2004, the Company declared dividend distributions to its participants in the amount of RR255,300 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	13 091 993	8 528 723	5 369 980
Shortage of goods	154 177	101 129	99 362
Discounts provided by suppliers	(392 578)	(181 236)	(95 204)
Total cost of goods sold	12 853 592	8 448 616	5 374 138

22. Other Revenues

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

	2005	**2004**	**2003**
Rent	81 555	46 070	17 245
Other	10 990	2 623	15 937
Total other revenues	92 545	48 693	33 182

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	907 133	567 800	375 880
Commissions to franchisees	378 188	151 258	19 680
Rent	312 877	181 596	139 795
Materials and supplies	85 533	42 348	25 363
Marketing and advertising	140 830	101 916	68 655
Security	103 407	71 716	40 864
Repair and maintenance	73 009	41 798	44 424
Taxes other than income tax	73 542	25 766	28 249
Utilities	97 465	44 015	18 198
Bank charges	17 789	18 314	9 643
Audit, consulting and legal fees	41 452	30 378	8 473
Transportation	4 644	3 046	7 372
Communication costs	22 931	12 541	10 588
Insurance	5 744	1 856	6 627
Other	24 075	1 232	12 594
Total selling, general and administrative expenses	2 288 619	1 295 580	816 405

24. Pre-opening costs

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

	2005	2004	2003
Rent	109 691	30 982	8 848
Transportation	7 674	664	670
Utilities	2 034	477	-
Communication costs	159	22	-
Total pre-opening costs	119 558	32 145	9 518

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	4 616	3 266	21 275
Interest expense	(246 140)	(54 517)	(1 858)
Total finance income/(expense), net	(241 524)	(51 251)	19 417

26. Income Taxes

Income tax expense consisted of the following amounts:

	2005	2004	2003
Current income tax expense	200 743	122 733	57 644
Tax on intra-group dividends	31 692	12 332	2 727
Deferred income tax (benefit)/expense	(39 949)	27 473	20 470
Total income tax expense	192 486	162 538	80 841

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%	109 586	144 246	69 989
Tax on intra - group dividends	31 692	12 332	2 727
Non-deductible inventory shortages	34 598	-	-
Effect of other non-deductible expenses	16 610	5 960	8 125
Income tax expense	192 486	162 538	80 841

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	45 193	-	-
Vacation accrual	4 566	-	-
Valuation of goods for resale	15 126	4 138	2 573
Valuation of accounts receivable	515	241	553
Other	1 327	-	-
Total deferred tax asset	66 727	4 379	3 126
Effect of temporary differences resulting in deferred tax liability:			
Property, plant and equipment valuation	118 143	101 402	79 758
Other assets valuation	23 252	17 594	10 512
Total deferred tax liability	141 395	118 996	90 270
Net deferred tax liability	74 668	114 617	87 144

In 2005, several subsidiaries of the Company that recently started operations incurred tax losses in the amount of RR188,304 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	264 123	438 485	210 779
Earnings per share, Russian Rubles	0.10	0.16	0.08

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 entities affiliated with the Company’s shareholders. 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)	6 220	4 835	3 398
ZAO ChOP “Goodwill-Garant” (b)	(12 188)	(1 306)	(620)
LLC “Strek” (c)	-	565	595
ZAO “Kofeinaya Fabrika “Select” (d)	(1 129)	(3 373)	(4 635)
OAO "Gorizont" (f)	847	494	(82)

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 RR4,835 thousand and RR6,220 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 RR199,787 thousand and RR 224,599 thousand in 2004 and 2005, respectively. Commissions paid in 2005 amounted to RR12,400 thousand. Repair works performed by the Group at the respective store amounted to RR12,470 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 RR101,552 thousand, RR14,531 thousand and RR6,546 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 RR17,711 thousand. The Group continued to pay fees for some utility services provided by the entity in the amount of RR2,608 thousand and RR2,119 thousand in 2004 and 2005, respectively. On 28 December 2004, LLC "Kofeinaya Fabrika "Select" provided the Group with a loan in amount of RR1,985 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 RR5,902 thousand at 31 December 2005 (2004: RR85 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 RR5,648 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 RR17,309 thousand, RR11,652 thousand and RR8,267 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 RR23,819 thousand for the year ended 31 December 2005 (2004: RR18,785 thousand; 2003: RR10,267 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 RR233 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 RR108,222 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 RR99,769 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 RR85,170 thousand in court of first three instances and the claims in the amount of RR14,599 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 RR59,046 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	**322,202**
After one year but not more than five years	**1,180,616**
More than five years	**729,361**

As of 31 December 2005 the Group's capital commitments under construction contracts, mainly related to leasehold improvements, amounted to RR200,062 thousand. Purchase commitments for goods for resale as of 31 December 2005 amounted to RR161,223 thousand. Also as of 31 December 2005, the Group had unfulfilled purchase commitments for trade equipment amounting to RR266,132 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, other than cash, 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:

31. Financial Risk Management (continued)

	Carrying amount			Fair value		
	2005	2004	2003	2005	2004	2003
Financial assets						
Forward currency contract	4 560	-	-	4 560	-	-
Trade and other receivables	997 649	565 715	302 262	997 649	565 715	302 262
Cash and cash equivalents	300 413	513 054	86 222	300 413	513 054	86 222
Financial liabilities						
Borrowings	3 232 394	1 410 856	-	3 232 394	1 410 856	-
Trade and other payables	1 836 542	883 882	520 890	1 836 542	883 882	520 890

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 RR4 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 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.

34. Subsequent Events (continued)

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 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. In addition, the Group has agreed to provide guarantees in the total amount of up to RR1,000,000 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.

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, 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 2006 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.