LLC “Trade House “KOPEYKA”

Consolidated Financial Statements

Year ended 31 December 2004
with Report of Independent Auditors

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Consolidated Financial Statements

Year ended 31 December 2004

Contents

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Report of Independent Auditors

To the participants of LLC “Trade House “Kopeyka”:

1. We have audited the accompanying consolidated balance sheet of LLC “Trade House “Kopeyka” (hereinafter referred to as the “Company” and together with its subsidiaries as the “Group”), a limited liability company, as of 31 December 2004, and the related consolidated income statement, statements of changes in net assets attributable to participants and cash flows for the year then ended. 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 audit.

2. Except as discussed in the following paragraph, we conducted our audit 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 audit provides a reasonable basis for our opinion.

3. As described in Note 3, the Company recorded its investment in subsidiaries acquired as a result of Group formation in the amounts equal to the nominal value of participants’ interests as stated in the charter. At the date of transition to International Financial Reporting Standards (IFRS) the Company determined deemed cost of goodwill arising on acquisition of these subsidiaries as a difference between the cost of investment and its interest in the subsidiaries’ net assets. We were unable to satisfy ourselves as to the cost of investment and, accordingly, the carrying amount of goodwill.

4. In our opinion, except for the effect on the financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to satisfy ourselves as to the carrying amount of goodwill as noted in paragraph 3, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LLC “Trade House “Kopeyka” as of 31 December 2004, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLC

29 April 2005

LLC “Trade House “Kopeyka”

Consolidated Balance Sheets

(In thousands of Rubles)

	Notes	31 December 2004	31 December 2003
ASSETS			
Non-current assets			
Property and equipment, net	**10**	**2,698,462**	1,626,357
Goodwill	**12**	**1,271,171**	1,271,171
Other intangible assets, net	**11**	**45,045**	38,650
Deferred income tax asset	**24**	**4,379**	3,126
Other non-current assets	**15**	**44,019**	21,368
		4,063,076	2,960,672
Current assets			
Inventories, net	**5**	**582,161**	323,118
Trade receivables, net	**6**	**68,440**	48,138
Advances paid	**7**	**69,974**	19,119
Taxes receivable	**8**	**313,405**	175,617
Cash and cash equivalents	**4**	**513,054**	86,222
Other current assets	**9**	**20,607**	32,072
		1,567,641	684,286
TOTAL ASSETS		**5,630,717**	3,644,958
LIABILITIES			
Non-current liabilities excluding net assets attributable to participants			
Deferred income tax liability	**24**	**118,996**	90,270
Other non-current liabilities	**15**	**27,930**	–
		146,926	90,270
Net assets, attributable to participants			
Charter capital	**18**	**2,959,236**	2,959,236
Cumulative surplus of net assets		**257,747**	74,562
Total net assets attributable to participants		**3,216,983**	3,033,798
Current liabilities			
Trade payables	**13**	**776,946**	428,171
Taxes payable	**14**	**42,029**	70,612
Short term debts	**16**	**1,410,856**	–
Other current liabilities	**17**	**36,977**	22,107
		2,266,808	520,890
TOTAL LIABILITIES		**5,630,717**	3,644,958

A.V. Samonov, President of the Company
29 April 2005

V. I. Shlepov, Finance Director
29 April 2005

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

LLC “Trade House “Kopeyka”

Consolidated Income Statements

Years ended 31 December 2004 and 2003

(In thousands of Rubles)

	Notes	2004	2003
Revenues			
Retail sales		**9,704,672**	6,112,101
Wholesale sales		**787,914**	444,955
Other revenues	**21**	**233,189**	128,386
Total revenues		**10,725,775**	6,685,442
Cost of goods sold	**20**	**(8,476,185)**	(5,369,980)
Gross profit		**2,249,590**	1,315,462
Selling, general and administrative expenses	**22**	**(1,644,701)**	(1,029,145)
Other operating expenses		**(8,036)**	(14,114)
Profit from operating activities		**596,853**	272,203
Foreign exchange gain		**55,421**	–
Financial income/(expense), net	**23**	**(51,251)**	19,417
Profit before income taxes		**601,023**	291,620
Income tax expense	**24**	**(162,538)**	(80,841)
Net profit attributable to participants		**438,485**	210,779

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

LLC “Trade House “Kopeyka”

Consolidated Statements of Changes in Net assets attributable to participants

Years ended 31 December 2004 and 2003

(In thousands of Rubles)

	Charter capital (Note 18)	**Cumulative surplus/(deficit) of net assets**	**Total net assets attributable to participants**
At 31 December 2002	2,989,128	(84,464)	2,904,664
Redemption of participant’s interest (Note 18)	(29,892)	(6,299)	(36,191)
Net profit attributable to participants	–	210,779	210,779
Dividends (Note 19)	–	(45,454)	(45,454)
At 31 December 2003	**2,959,236**	**74,562**	**3,033,798**
Net profit attributable to participants	–	438,485	438,485
Dividends (Note 19)	–	(255,300)	(255,300)
At 31 December 2004	**2,959,236**	**257,747**	**3,216,983**

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

LLC “Trade House “Kopeyka”

Consolidated Statements of Cash Flows

Years ended 31 December 2004 and 2003

(In thousands of Rubles)

	2004	2003
Cash flow from operating activities		
Profit before income taxes	**601,023**	291,620
Adjustments for:		
Interest income	**(3,266)**	(21,275)
Interest expense	**54,517**	1,858
Depreciation and amortization	**160,049**	103,860
Loss from fixed assets disposal	**1,178**	5,376
Foreign exchange gain	**(55,421)**	–
Operating cash flow before working capital changes	**758,080**	381,439
Increase in trade receivable and advances paid	**(71,157)**	158,245
Increase in inventories	**(259,043)**	(83,416)
Increase in taxes receivable	**(108,835)**	(115,982)
Increase in trade and other accounts payable	**264,075**	62,433
Increase / (decrease) in taxes payable	**(6,639)**	–
Decrease / (increase) in other assets	**23,514**	(5,877)
Cash generated from operations	**599,995**	396,842
Interest paid	**(19,538)**	(1,858)
Income taxes paid	**(184,747)**	(55,263)
Net cash flows from operating activities	**395,710**	339,721
Cash flows from investing activities		
Purchases of property, plant and equipment	**(1,097,778)**	(531,298)
Proceeds from the sale of property and equipment	**1,063**	4,165
Purchases of intangible assets	**(16,595)**	(24,262)
Interest received	**3,266**	21,275
Net cash used in investing activities	**(1,110,044)**	(530,120)
Cash flow from financing activities		
Redemption of participant’s interest	**–**	(36,191)
Proceeds from Drezdner Bank AG loan, net of mandatory restricted deposit and loan origination costs (Note 16)	**1,117,404**	–
Proceeds from / (repayment of) other short-term borrowings	**292,910**	(256,052)
Repayment of other non-current liability	**(13,848)**	–
Dividends paid	**(255,300)**	(45,454)
Net cash provided by / (used) in financing activities	**1,141,166**	(337,697)
Net increase / (decrease) in cash and cash equivalents	**426,832**	(528,096)
Cash and cash equivalents at beginning of year	**86,222**	614,318
Cash and cash equivalents at end of year	**513,054**	86,222

Refer Note 10 for non-cash acquisitions of property, plant and equipment.

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

1. Description of Business

LLC “Trade House “Kopeyka” (further referred to as the “Company”, or, together with its subsidiaries, the “Group”) is a limited liability company incorporated in Russia on 16 May 2002. The consolidated financial statements for the year ended 31 December 2004 were authorized for issue by the President of the Company on 29 April 2005.

The Group’s principal activity is food retailing. As of 31 December 2004, the Group operated 27 stores and supermarkets on own premises and 24 stores on leased premises in Moscow and the Moscow region, Russia. The Company also granted franchise rights to another 17 store operators. As of 31 December 2004 the Group employed approximately 2,800 employees (2003 - 2,500 employees, including personnel provided by third parties under several outsourcing service contracts).

The head office of the Company is located at Petrovsko-Razumovsky proezd, 28, Moscow, Russia.

2. Group Formation

The Company was formed by three individual shareholders and ZAO “Yukos-M” in May 2002. 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 1,108,100 in exchange for 50.5% share in the capital of the Company.

As a result of foundation agreement between the Company’s participants, the 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 combinations.

3. Summary of Significant Accounting Policies

Basis of Presentation

The Company has transitioned to IFRS at the beginning of the earliest period presented in these financial statements (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 previous 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”.

3. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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 a 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. Since at the time of the Company's formation no independent appraisal of the fair value of exchanged ownership interests was performed, the cost of investments in the parent's separate financial statements was recorded in the amounts equal to the nominal values of participants interests as stated in the Company's charter.

The Company has also applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, 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 446,130 at 1 January 2003 that were recorded at the appraised value that management considered to be comparable to the fair value.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies in this Note.

The Company and its subsidiaries report to the Russian state authorities in rubles and maintain statutory accounting records in that currency. The accompanying financial statements have been prepared from the accounting records which are maintained in accordance with the Russian legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the Company's Russian statutory accounting records, which are appropriate to present the financial position, results of operations, and cash flows in accordance with IFRS. The principal adjustments relate to business combinations, property and equipment valuation and depreciation and consolidation accounting.

3. Summary of Significant Accounting Policies (continued)

Reconciliation of Net assets attributable to participants and Net profit reported under Previous GAAP and under IFRS

Net assets attributable to participants and net profit are reconciled between previous GAAP and IFRS as follows:

	Total net assets attributable to participants at 1 January 2003	Net profit for the year ended 31 December 2003	Total net assets attributable to participants at 31 Decembe r 2003
Previous GAAP	2,510,022	156,123	2,584,500
Adjustments of goodwill and goodwill amortization	339,982	47,753	387,735
Effect of application of IAS 29 to historical cost of fixed assets	71,730	(19,210)	52,520
Capitalization of leasehold improvements	–	31,583	31,583
Other adjustments	–	(3,289)	(3,289)
Tax effect of all adjustments	(17,070)	(2,181)	(19,251)
International Financial Reporting Standards	**2,904,664**	**210,779**	**3,033,798**

The previous GAAP refers to the Company’s prior year financial statements, in which the Company applied some, but not all, IFRS as described above. Capitalization of leasehold improvements represents a prior period adjustment to correct an error in the prior year financial statements discovered in 2004.

Foreign Currency Translation

The measurement and presentation currency of the Company is the Russian Ruble, which is the national currency of the Russian Federation. Transactions in foreign currencies are initially recorded in the presentation currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated income statement as foreign exchange gains (losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

3. Summary of Significant Accounting Policies (continued)

Basis of Consolidation

The consolidated financial statements comprise the financial statements of LLC “Trade House “Kopeyka” and its subsidiaries drawn up to 31 December 2004 after elimination of all material inter-company transactions.

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 Investment”,
- LLC “Kopeyka Tula”,
- LLC “Kopeyka Kaluga”, and
- LLC “Kopeyka Riasan”.

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.

Other regional subsidiaries were established by the Company in 2003 and 2004 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.

Hyper-inflation

Prior to 1 January 2003, the characteristics of the economic environment of the Russian Federation indicated the existence of hyperinflation. Non-monetary assets and liabilities acquired by the Group prior to 31 December 2002 and share capital transactions occurring before 31 December 2002, which are not stated at current cost at the IFRS transition date of 1 January 2003, have been 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.

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

3. Summary of Significant Accounting Policies (continued)

Management Estimates

The preparation of financial statements in accordance with IFRS requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates with regard to those financial statements relate to the valuation and useful lives of fixed assets and deferred taxation.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and at the Company's bank accounts and short-term investments with original maturity not exceeding three months.

Receivables

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and conditions are accounted for on a weighted average costing basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Property and Equipment

Property and equipment are recorded at purchase or construction cost less accumulated depreciation and any impairment in value. For certain fixed assets 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 fixed assets 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 provided 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
IT equipment	4 years
Vehicles	5-7 years
Fixtures and office equipment	3-5 years
Leasehold improvements	Term of lease

3. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

The carrying values of property and equipment are periodically reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use.

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 begins when fixed assets are put into operation.

The cost of maintenance, repairs and replacement of minor items of property is charged to maintenance expense. Renewals and betterments are capitalized. Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operations within that unit are 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.

Employee Benefits – unified social taxes

Social contributions (including contributions to the state pension fund) are made through a unified social tax (“UST”), calculated by the Group through the application of a regressive rate from 35,6% to approximately 18% to the annual gross remuneration of each employee. The Group allocated the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contribution to the pension fund vary from 28% to 14% depending on the annual gross salary of each employee.

The Company’s contributions relating to the UST are expensed when incurred.

3. Summary of Significant Accounting Policies (continued)

Borrowings

Borrowings are initially recognized at cost, being the fair value of the consideration received, net of transaction costs incurred. In subsequent periods, borrowings are measured at amortized cost using the effective interest rate 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.

Borrowing costs are expensed as incurred.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 goods and risks of ownership are transferred to 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 consisted of sales through food retail supermarkets and stores, wholesale sales and service fees.

Leases

Finance leases of equipment that transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company are capitalized at the inception of the lease at the market 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 estimated useful life of the asset like other fixed assets within the same class, with consideration of the contractual terms under which the assets can be used.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of operations on a straight-line basis over the lease term.

3. Summary of Significant Accounting Policies (continued)

Income Taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability 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 goodwill amortization or the initial recognition 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.

Financial Instruments and Risk Management Polices

The Company’s financial instruments comprised primarily cash and various other financial instruments such as accounts receivable and payable, which arise directly from its activities. These instruments are carried at cost which approximates fair value due to their short maturities.

Throughout the reporting period it was the Company’s policy that no investment is made in other financial instruments. The main risks arising from the Company’s financial instruments are interest rate risk and credit risk.

The Company’s exposure to market risk for changes in the interest rates is limited as it is related primarily to the short-term bank deposits and borrowings.

In connection with its wholesale activities, the Company is exposed to the credit risk. The Company minimizes the risk through dealing only with recognized creditworthy third parties. Management reviews the trade receivable balances on an ongoing basis in addition to reviewing the financial position of the main customers and their compliance with the contract terms. As a result management believes that the Company’s exposure to bad debts is not significant.

4. Cash and Cash Equivalents

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

	2004	2003
Petty cash	**19,460**	8,050
Cash at bank	**412,146**	59,968
Bank deposits	**19,377**	–
Cash to be deposited with banks	**62,071**	18,204
Total cash and cash equivalents	**513,054**	86,222

The Group deposited USD 411 thousand (11,377) in AB “Gazprombank” ZAO and 8,000 at LLC “Mosckovsky creditny bank” at 1.4% and 2% annual interest, respectively, till January 2005. Except for the above USD deposit, all other cash amounts are denominated in Russian rubles.

5. Inventories

Inventories as of 31 December were comprised as follows:

	2004	2003
Goods for resale	**589,742**	327,187
Other inventories	**9,659**	6,652
Allowance for obsolescence and inventory losses	**(17,240)**	(10,721)
Total inventories, net	**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 2004 the Group had goods for resale with the carrying amount of 257,129 pledged to secure repayment of the loan obtained by the Group from AKB “Moskommertzbank” in April 2004 (see Note 16).

6. Trade Receivables

Trade receivables consisted of the following as of 31 December:

	2004	2003
Trade receivables	**68,687**	48,470
Allowance for doubtful accounts	**(247)**	(332)
Total trade receivables, net	**68,440**	48,138

Trade receivables included wholesale trade receivables and receivable from other debtors and franchisees.

7. Advances Paid

Advances paid consisted of the following as of 31 December:

	2004	2003
Advances to suppliers	**41,449**	11,521
Rent prepaids	**24,668**	4,792
Other	**3,857**	2,806
Total advances paid, net	**69,974**	19,119

8. Taxes Receivable

Taxes receivable consisted of the following as of 31 December:

	2004	2003
Input VAT and VAT recoverable	**274,924**	166,329
Income and other taxes receivable	**38,481**	9,288
Total taxes receivable	**313,405**	175,617

Majority of input Value Added Tax (VAT) and 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.

9. Other Current Assets

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

	2004	2003
Short-term loans granted	**14,576**	–
Promissory note of LLC “Exploration”	**–**	31,103
Other current assets	**6,031**	969
Total other current assets	**20,607**	32,072

The short-term promissory note of LLC “Exploration” is stated at cost, which is equal to face value, and bears no interest. In January 2004 the Group received the face value of the note through the arbitration in full.

In 2004, the Group granted a short-term loan to OOO “Polius” in a total amount of 11,204 at 24% interest maturing in 2005. As of 31 December 2004, 10,462 of the loan principal and 78 of accrued interest remained outstanding.

As of 31 December 2004 the Group had 4,114 of short-term loan receivable from OOO “Moskoviya Lux” bearing no interest and maturing in April 2005.

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

10. 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	44,248	502,044	–	1,296,601
Additions	–	–	–	–	495,966	36,584	532,550
Transfers	720,524	130,467	13,078	35,482	(899,551)	–	–
Disposals	–	(7,293)	(3,326)	(3,347)	–	–	(13,966)
31 December 2003	**1,176,436**	**384,432**	**42,891**	**76,384**	**98,459**	**36,584**	**1,815,185**
Accumulated depreciation							
Balance as of 1 January 2003	(9,782)	(71,422)	(5,424)	(9,562)	–	–	(96,190)
Depreciation for the year	(24,281)	(51,889)	(7,316)	(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)**	**(17,737)**	**–**	**(5,001)**	**(188,829)**
Net book value	**1,142,373**	**264,231**	**31,064**	**58,647**	**98,459**	**31,583**	**1,626,357**

	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	76,384	98,459	36,584	1,815,186
Additions	–	–	–	–	1,194,303	29,892	1,224,195
Transfers	84,981	213,799	21,674	11,212	(331,666)	–	–
Disposals	–	(1,848)	(427)	(977)	–	–	(3,252)
31 December 2004	**1,261,417**	**596,383**	**64,138**	**86,619**	**961,096**	**66,476**	**3,036,129**
Accumulated depreciation							
Balance as of 1 January 2004	(34,063)	(120,201)	(11,827)	(17,735)	–	(5,001)	(188,827)
Depreciation for the year	(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**	**961,096**	**49,302**	**2,698,462**

10. Property and Equipment (continued)

Trade equipment with the carrying amount of 296,046 was pledged to secure repayment of the loan obtained by the Group from AKB "Moskommertzbank" in April 2004 (see Note 16).

In 2004, the Group acquired IT equipment in the amount of 46,436 on credit terms (see Note 15).

11. Other intangible assets

The analysis of activity in intangible assets was as follows:

	2004	2003
Cost		
Balance at 1 January	**51,861**	27,599
Additions	**16,595**	24,262
Balance at 31 December	**68,456**	51,861
Accumulated amortization		
Balance at 1 January	**(13,212)**	(6,412)
Amortization for the year	**(10,199)**	(6,799)
Balance at 31 December	**(23,411)**	(13,211)
Net intangible assets	**45,045**	38,650

The 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 that averaged 5 years.

12. Goodwill

As described in Note 3, goodwill represented the difference between 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.

13. Trade Accounts Payable

Trade payables represented current payables to suppliers for goods and services.

14. Taxes Payable

Taxes payable consisted of the following as of 31 December:

	2004	2003
Sales tax	**–**	34,393
Value added tax payable	**26,375**	–
Income tax	**4,626**	26,393
Property tax	**7,663**	7,954
Other taxes	**3,365**	1,872
	42,029	70,612

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

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

	2004	2003
Restricted deposit (Note 16)	**35,067**	–
Long-term rent deposits	**8,331**	12,757
Other	**621**	8,611
Total	**44,019**	21,368

Other long-term liabilities included long term portion of the payables in relation to the IT equipment acquired on credit terms (Note 10) and stated at the fair value based on cash flows discounted using the borrowings rate of 12% as at 31 December 2004. Repayments are denominated in U.S. dollars and scheduled as follows (converted to rubles at year–end exchange rate):

2005	22,316
2006	22,316
2007	8,252
Total payments	**52,884**
Less interest	(7,032)
Carrying amount of liability	**45,852**
Less short-term portion	(18,910)
Long term portion	**26,942**

16. Short-term Debt

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

	2004	2003
Loan from Dresdner Bank AG	**1,109,948**	–
Loan from AKB "Moskommerzbank"	**277,487**	–
Loan from a related party (Note 25)	**1,985**	–
Interest payable	**34,979**	–
Unamortized loan origination cost	**(13,543)**	–
Total	**1,410,856**	**–**

16. Short-term Debt (continued)

In September 2004, the Group entered into a loan agreement with Drezdner Bank AG for USD 40 million (1,168,684) bearing 12% annual interest maturing on 30 March 2006. The loan was funded by credit-linked notes issued by Drezdner Bank AG to a group of investors who are granted a put option on the notes that can be exercised in one year from the date of issuance. As of 31 December 2004, the Group had 1,143,986 payable to Drezdner Bank AG, including 1,109,948 of loan principal and 34,039 of accrued interest. Under the currency control regulation enacted in Russia, the Group deposited 35,067 in Gazprombank, representing 3% of the loan principal until repayment of the loan. The loan origination costs incurred by the Group in a total amount of 16,215 are amortized over the loan term using the effective interest rate method. The loan agreements contains certain restrictive covenants including limitation on payment of dividends by the Company's subsidiaries.

In April 2004 the Group obtained a loan of USD 10 million (299,772) from AKB "Moskommertzbank" for the acquisition and reconstruction of retail property at 11.25% annual interest maturing on 14 May 2005. The loan is secured by the Group's trade equipment and goods-for-resale. As of 31 December 2004 the Group had an outstanding principal of 277,487 and 940 of interest accrued in relation to this loan.

17. Other Current Liabilities

	2004	2003
Wages and social taxes	**13,160**	2,391
Commission payable	**13,575**	12,024
Other payables	**10,242**	7,692
Total other current liabilities	**36,977**	22,107

18. Charter Capital

As a Russian limited liability company, the Company has no share capital; rather, it has registered capital contributed by the participants in the amounts specified in the charter that represent each participant's ownership interest. As such, no earnings per share are presented in these financial statements.

In accordance with the charter, the Company is obliged to distribute 25% of net profits determined as per the statutory accounts as dividends. Each participant has a right to a dividend distribution proportional to its ownership interest. When a participant decides to exit the Company, the Company is obliged to repay the actual value of the participant's interest that is determined as its proportional share of net assets reported in the statutory accounts.

At the moment of the state registration, the Company's authorized capital amounted to 2,752,673 and was distributed between participants as follows: 1,390,100 (50.5%) – ZAO "Yukos-M"; 817,544 (29.7%) – A. V. Samonov; 272,515 (9.9%) – S. A. Lomakin; 272,515 (9.9%) – A. K. Khachatryan. These amounts were fully paid in 2002 through cash and in-kind contribution by participants.

18. Charter Capital (continued)

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 nominal value of this interest (27,527) and amount paid by LLC “Kopeyka Development” to ZAO “Yukos-M” (36,191) was charged to equity as a redemption of participant’s interest. Accordingly, as of 31 December 2003, the authorized capital amounted to 2,725,146 and was distributed as follows: 454,191 (16⅔%) – LLC “Aktiv-Holding”; 454,191 (16⅔%) –ZAO “Kalina”; 454,191 (16⅔%) – ZAO “Korall”; 817,544 (30%) – A. V. Samonov; 272,515 (10%) – S. A. Lomakin; 272,515 (10%) – A. K. Khachatryan.

In 2004 LLC “Aktiv-Holding”, ZAO “Kalina” and ZAO “Korall” sold 100% of their ownership interest to Eckkleton Ltd, a BVI legal entity.

19. Dividends Paid

In October 2004, the Company declared dividend distribution to its participants in the amount of 255,300. Dividends were paid in 2004.

In September 2003, the Company declared and paid dividends to its participants in amount of 45,454.

20. Cost of Goods Sold

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

	2004	**2003**
Goods for resale - retail sales	**7,742,683**	4,957,211
Goods for resale - wholesale sales	**733,502**	412,769
Total cost of goods sold	**8,476,185**	5,369,980

21. Other Revenues

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

	2004	**2003**
Marketing services	**181,236**	90,340
Rent	**46,070**	17,246
Repair services	**–**	15,937
Other	**5,883**	4,863
Total other revenues	**233,189**	**128,386**

22. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended 31 December comprised the following:

	2004	2003
Personnel	**567,802**	375,880
Materials and supplies	**193,766**	59,681
Rent	**184,075**	148,643
Depreciation and amortization	**160,049**	103,860
Commissions	**151,258**	19,680
Marketing and advertising	**101,916**	68,655
Shortage and obsolescence of goods	**101,129**	99,362
Utilities	**39,947**	18,198
Repair and maintenance	**36,620**	44,424
Audit, consulting and legal fees	**30,378**	8,473
Taxes other than income tax	**25,766**	28,249
Bank charges	**18,314**	9,643
Security	**14,531**	6,546
Communication costs	**12,352**	10,588
Transportation	**3,710**	8,042
Insurance	**1,856**	6,627
Other	**1,232**	12,594
Total selling, general and administrative expenses	**1,644,701**	1,029,145

23. Financial Income/(Expense)

Financial income and expenses for the years ended 31 December was comprised as follows:

	2004	2003
Interest income	**3,266**	21,275
Interest expense	**(54,517)**	(1,858)
Total finance income/(expense), net	**(51,251)**	19,417

24. Income Taxes

Each group entity was subject to profit taxation on its income. Income tax expense consisted of the following amounts during 2004 and 2003:

	2004	2003
Current income tax expense	**122,733**	57,644
Tax on intra-group dividends	**12,332**	2,727
Deferred income tax expense	**27,473**	20,470
Total income tax expense	**162,538**	80,841

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

	2004	2003
Tax expense computed on income before taxes at the statutory tax rate of 24%	**144,246**	69,989
Tax on intra - group dividends	**12,332**	2,727
Effect of non-deductible expenses	**5,960**	8,125
Income tax expense	**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 sheet, and are comprised of the following:

	2004	2003
Effect of temporary differences resulting in deferred tax asset:		
Difference in valuation of goods for resale	**4,138**	2,573
Difference in valuation of accounts receivable	**241**	553
Total deferred tax asset	**4,379**	3,126
Effect of temporary differences resulting in deferred tax liability:		
Difference in property, plant and equipment valuation	**101,402**	79,758
Difference in intangible assets valuation	**17,594**	10,512
Total deferred tax liability	**118,996**	90,270
Net deferred tax liability	**114,617**	87,144

25. Related Party Transactions

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)	
	2004	**2003**
LLC “TD Ryabina”	**4,835**	3,398
ZAO ChOP “Goodwill-Garant”	**(1,306)**	(620)
LLC “Strek”	**565**	595
ZAO “Kofeinaya fabrika “Select”	**(3,373)**	(4,635)

LLC “Torgovy Dom “Ryabina” operates a retail food store in the Moscow region under the 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 3,398 and 4,835 were included in trade receivables as of 31 December 2003 and 2004, respectively. Total volume of retail sales through LLC “Torgovy Dom “Ryabina” were of 14,763 and 199,787 in 2003 and 2004 respectively. Repair works performed by the Group at the respective store amounted to 750 in 2003 and 12,470 in 2004.

LLC “ChOP Goodwill-Garant”, LLC “Strek” and ZAO “Kofeinaya fabrika “Select” are controlled by the Company’s participants. The balances due to these entities were accounted for within other current liabilities. The 2003 and 2004 activities with these companies included receiving of rent, security and other services necessary for day-to-day business activities.

LLC “ChOP Goodwill-Garant” provided security services to the Group for 14,531 and 6,546 in total in 2004 and 2003, respectively.

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

LLC “Kofeinaya fabrika “Select” provided the Group with retail floor space for rent in the amount of 13,173 and 2,608 in 2003 and 2004, respectively, which was accounted for within trade accounts payable. In 2004, part of rented properties was subsequently acquired by the Group for 17,711. On 28 December 2004, LLC “Kofeinaya fabrika “Select” provided the Group with a loan of 1,985 bearing 13% annual interest with a maturity date of 27 December 2005.

26. Commitments and Contingencies

General Contingencies

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard 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 preceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2004 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 2004.

The management's estimate of the amount of possible liabilities, including fines, that could be incurred in case the tax authorities disagree with the Group's position on certain tax matters and certain tax practices used by the Group is approximately 233,000 at 31 December 2004. 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.

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.

26. Commitments and Contingencies (continued)

Purchase and Lease Commitments

As of 31 December 2004, the Group had a number of outstanding cancelable and non-cancelable long-term lease contracts priced in US dollars with lease terms varying from three to 10 years. The rent is paid when incurred on a monthly basis. Future minimum rentals payable under the non-cancelable operating leases were as follows as at 31 December 2004:

Within one year	**159,137**
After one year but not more than five years	**571,964**
More than five years	**363,737**

As of 31 December 2004, the Group had unfulfilled purchase commitments for trade equipment and store fittings amounting to 33,894. The equipment is ordered where and when required.

27. Subsequent Events

Following a VAT review performed by the Tax Inspectorate in 2004, in 2005 the Group received a tax claim in a total amount of 92,022, including 36,927 of fines and penalties. This claim relates to the application of Constitutional court decision on deductibility of input VAT paid from the borrowed funds. In March 2005 the Group paid 83,706 of the tax claim and penalties. The Group disputes this tax claim in court. Management believes that a successful outcome of the matter is probable.

Under the loan agreement with OAO AKB “AVTOBANK - NIKOIL” of 12 December 2004 for a credit line facility of up to USD 25 million (703,108) with 13.5% interest, in 2005 the Group obtained a first tranche of USD 5 million (138,556). The credit line facility is available till 25 September 2005.

On 30 March 2005 the Company’s participants approved the issuance of 1.2 billion of interest bearing bonds with a three-year maturity term.