Open Joint Stock Company “Magnit” and subsidiaries

Independent Accountants’ Review Report

Condensed Consolidated Interim Financial Statements
Six Months Period Ended June 30, 2006
(Unaudited)

OPEN JOINT STOCK COMPANY “MAGNIT” AND SUBSIDIARIES

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OPEN JOINT STOCK COMPANY "MAGNIT" AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

The following statement, which should be read in conjunction with the independent accountants' responsibilities stated in the independent accountants' report on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent accountants in relation to the condensed consolidated interim financial statements of Open Joint Stock Company "Magnit" and subsidiaries (the "Group").

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the financial position of the Group at June 30, 2006 and the results of its operations, cash flows and changes in equity for the six months period then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the condensed consolidated interim financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the interim condensed consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements for the six months period ended June 30, 2006 were approved on August 18, 2006 by:

____________________________	____________________________
Sergey Galitskiy	**Alexander Prisyazhnyuk**
Chief Executive Officer	Chief Financial Officer

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the shareholders of Open Joint Stock Company "Magnit":

We have reviewed the accompanying condensed consolidated interim balance sheet of Open Joint Stock Company "Magnit" and subsidiaries (the "Group") as at June 30, 2006 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six months period then ended (the "financial statements"). These condensed consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements (ISRE) 2400 applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not give a true and fair view in accordance with International Financial Reporting Standards.

August 18, 2006

OPEN JOINT STOCK COMPANY “MAGNIT” AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AT JUNE 30, 2006

	Notes	June 30, 2006 ‘000 USD (unaudited)	December 31, 2005 ‘000 USD (audited)
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment, net	5	257,778	160,108
Goodwill		220	-
Intangible assets		330	350
Long-term investments		115	-
		258,443	160,458
CURRENT ASSETS:			
Merchandise		195,238	151,276
Receivables and prepayments, net	6	75,267	50,051
Short-term investments	7	41,784	-
Cash and cash equivalents	8	17,896	45,771
		330,185	247,098
TOTAL ASSETS		588,628	407,556
EQUITY AND LIABILITIES			
SHAREHOLDERS’ EQUITY:			
Share capital	9	27	23
Share premium	9	185,482	143
Retained earnings		73,016	49,736
Cumulative translation adjustment		412	(714)
		258,937	49,188
MINORITY INTEREST	4	513	-
		259,450	49,188
NON-CURRENT LIABILITIES:			
Long-term loans and bonds	10	67,759	79,351
Long-term obligations under finance leases	11	9,168	3,466
Deferred tax liabilities, net		12,756	10,978
		89,683	93,795
CURRENT LIABILITIES:			
Trade accounts payable		176,271	132,223
Other payables and accrued expenses	12	55,548	57,531
Short-term loans	13	7,676	74,819
		239,495	264,573
TOTAL EQUITY AND LIABILITIES		588,628	407,556

The notes on pages 7 to 20 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

	Notes	6 months 2006 '000 USD (unaudited)	6 months 2005 '000 USD (unaudited)
REVENUE	14	1,074,011	693,692
COST OF SALES	15	(884,807)	(594,629)
GROSS PROFIT		189,204	99,063
Selling, general and administrative expenses	16	(152,644)	(87,502)
OPERATING PROFIT		36,560	11,561
Finance costs, net	17	(6,362)	(5,195)
Other expenses, net		(1,184)	(1,698)
PROFIT BEFORE INCOME TAX		29,014	4,668
INCOME TAX	18	(8,105)	(553)
NET PROFIT		20,909	4,115
Average number of ordinary shares of OJSC "Magnit" outstanding	7	67,297,836	64,946,754
Basic earnings per share, USD per share		0.31	0.06

The notes on pages 7 to 20 form an integral part of these condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY "MAGNIT" AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

(in thousands of US Dollars)

	Notes	Share capital	Share premium	Future distribution reserve	Retained earnings	Cumulative translation adjustment	Attributable to equity holders of the parent	Minority interest	Total
Balance as at December 31, 2004 (audited)		**23**	**148**	**1,554**	**13,451**	**(66)**	**15,110**	**-**	**15,110**
Net profit for the period		-	-	-	4,115	-	4,115	-	4,115
Currency translation adjustment		-	(5)	(51)	(497)	(37)	(590)	-	(590)
Balance as at June 30, 2005 (unaudited)		**23**	**143**	**1,503**	**17,069**	**(103)**	**18,635**	**-**	**18,635**
Balance as at December 31, 2005 (audited)		**23**	**143**	**-**	**49,736**	**(714)**	**49,188**	**-**	**49,188**
New subsidiaries	4	-	-	-	-	-	-	503	503
Net profit for the period		-	-	-	20,909	-	20,909	-	20,909
Issuance of shares	9	3	181,729	-	-	-	181,732	-	181,732
Currency translation adjustment		1	3,610	-	2,371	1,126	7,108	10	7,118
Balance as at June 30, 2006 (unaudited)		**27**	**185,482**	**-**	**73,016**	**412**	**258,937**	**513**	**259,450**

The notes on pages 7 to 20 form an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

	6 months 2006 ‘000 USD (unaudited)	6 months 2005 ‘000 USD (unaudited)
OPERATING ACTIVITIES:		
Profit before income tax	29,014	4,668
Adjustments for:		
Depreciation	11,809	6,705
Loss on disposal of property, plant and equipment	411	286
Change in provision for doubtful receivables	973	485
Other adjustments	902	814
Finance costs, net	6,362	5,195
Operating cash flow before movements in working capital	49,471	18,153
Increase in receivables and prepayments	(22,897)	(16,124)
Increase in merchandise	(33,775)	(20,789)
Increase in trade accounts payable	35,035	14,089
Increase in other payables and accrued expenses	14,873	5,136
Cash provided by operations	42,707	465
Interest paid	(6,906)	(5,148)
Interest received	482	4
Income tax paid	(28,467)	(527)
Net cash provided by/(used in) operating activities	7,816	(5,206)
INVESTING ACTIVITIES:		
Purchase from property, plant and equipment	(87,136)	(31,690)
Proceeds on disposal of property, plant and equipment	578	577
Purchase of investments	(100,212)	(329)
Proceeds from sale of investments	59,142	515
Net cash used in investing activities	(127,628)	(30,927)
FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	176,465	239,931
Repayment of short- term borrowings	(246,873)	(208,128)
Proceeds from long-term borrowings	5,166	642
Repayment of long-term borrowings	(21,428)	(3,779)
Repayment of obligations under finance lease	(5,404)	(745)
Proceeds from issue of shares	181,732	-
Cash paid for treasury shares	-	(1,524)
Net cash provided by financing activities	89,658	26,397
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	2,279	750
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,154)	(9,736)
CASH AND CASH EQUIVALENTS, beginning of the period	45,771	18,599
CASH AND CASH EQUIVALENTS, end of the period	17,896	9,613

The notes on pages 7 to 20 form an integral part of these condensed consolidated interim financial statements.

1. NATURE OF THE BUSINESS

Open Joint Stock Company "Magnit" (the "Company" or OJSC "Magnit") was incorporated in Krasnodar, Russian Federation, in January 2006 and became an assignee of Closed Joint Stock Company "Magnit" which operates from November 2003. There was no change in the principal activities or shareholders as a result of this operation. The ownership structure of the Company is detailed below.

OJSC "Magnit" is a holding company for a group of entities (the "Group") that operates in the retail trade of consumer goods under the "Magnit" name. It is also engaged in property rental to Group companies. The principal operating office of the Group is situated at 185 Levanevskogo St., 350002 Krasnodar, Russian Federation.

The Group structure includes OJSC "Magnit" as the holding company and two 100% directly owned subsidiaries – CJSC "Tander" and LLC "Magnit Finance".

CJSC "Tander" was established in June 1996 under the laws of the Russian Federation and it wholly owns the following subsidiaries: LLC "BestTorg", LLC "Tander-Magnit", LLC "Selta", LLC "Tander-Petersburg" and LLC "Alkotrading". All the subsidiaries are incorporated in the Russian Federation and were established between 1999 – 2002, except LLC "BestTorg" that was purchased by the Company in 2004 and LLC "Alkotrading" that was established in 2005 for the purpose of obtaining licenses for alcohol sales.

LLC "Magnit Finance" was established in August 2005 for the purpose of issuing bonds of the Group. In November 2005 the Group issued bonds of RUB 2,000,000 thousand maturing in 3 years and bearing a coupon of 9.34% (refer to Note 10). The bonds were issued with guarantees from the Group companies – CJSC "Tander" and CJSC "Magnit" (now OJSC "Magnit").

On January 30, 2006 OJSC "Magnit" formed a subsidiary, LLC "Magnit-Nizhny Novgorod", for retail trade in the city of Nizhny Novgorod. The Company LLC "Tandem" was contributed to the share capital of LLC "Magnit-Nizhny Novgorod" by minority shareholders. LLC "Tandem" is engaged in food retail in the city of Nizhny Novgorod (refer to Note 4).

Following the initial public offering of the Company's shares in April 2006, 13,642,796 of its shares (or 18.95% of the total shares outstanding) are listed on the Moscow Interbank Currency Exchange ("MICEX") and the Russian Trading System ("RTS").

The principal activities of the Group's subsidiaries as of June 30, 2006, all of which are incorporated in the Russian Federation, are as follows:

Company name	Principal Activity
CJSC "Tander"	Food retail and wholesale
LLC "Magnit Finance"	Issuer of the Group's bonds
LLC "BestTorg"	Food retail in the city of Moscow and the Moscow region
LLC "Tander-Magnit"	Food retail in the Moscow region
LLC "Selta"	Transportation services for the Group
LLC "Tander-Petersburg"	Food retail in Saint-Petersburg
LLC "Magnit-Nizhniy Novgorod"	Holding Company of LLC "Tandem"
LLC "Tandem"	Food retail in Nizhniy Novgorod
LLC "Alkotrading"	Holding licenses for alcohol sales

The Group had the following number of retail shops:

Federal district	As of 30/06/2005	As of 31/12/2005	As of 30/06/2006
Southern	615	684	726
Central	301	379	419
Volga	291	368	443
North-Western	43	61	76
Urals	3	8	18
Total number of shops	**1,253**	**1,500**	**1,682**

The average number of employees of the Group for the six months periods ended June 30, 2006 and June 30, 2005 was 34,166 and 21,896 people, respectively. The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. The Group does not have any private pension funds.

The ultimate shareholders of the Group at June 30, 2006 are:

	% ownership
Galitskyi S.N.	57.99%
Bogachev A.I.	15.07%
Gordeichuk V.E.	4.33%
Management of the Group	3.66%
Shares traded on MICEX and RTS (free float)	18.95%
Total	**100.00%**

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation – These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The accounting policies used are consistent with those used in the annual consolidated financial statements of the Group for 2005.

All entities of the Group maintain their accounting records in Russian roubles in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principals and procedures differ substantially from those generally accepted under IFRS. Accordingly, the interim condensed consolidated financial statements, which have been prepared from the Group's Russian statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Use of Estimates and Assumptions – The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Functional and Presentation Currency – The functional currency of the Group is the Russian rouble (RUB). The Russian Rouble is not a fully convertible currency outside of the territory of the Russian Federation. The translation of Rouble denominated assets and liabilities into US Dollars for the purpose of these financial statements does not indicate that the Group could or will in the future realize or settle in US Dollars the translated values of these assets and liabilities.

The Group has chosen to present these financial statements in US Dollars (USD). The restatement of the financial statements from the functional currency to the presentation currency is done in accordance with the requirements of IAS 21 “The Effects of Changes in Foreign Exchange Rates”. Generally the requirements state that when financial statements are presented in a currency other than the functional currency and the functional currency is not a currency of a hyperinflationary economy, assets and liabilities for all balance sheets presented are translated at the closing rate existing at the date of each balance sheet presented; income and expense items for all periods presented are translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates; equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the date of each balance sheet presented; and all exchange differences resulting from translation are recognized directly in equity.

The closing rate for June 30, 2006 and December 31, 2005 was 27.0789 RUB/1 USD and 28.7825 RUB/1 USD, respectively. The average rate for the six months periods ended June 30, 2006 and June 30, 2005 was 27.6154 RUB/1 USD and 27.9595 RUB/1 USD, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING POLICIES ADOPTED

The following accounting policies were adopted by the Group in the preparation of the accompanying condensed consolidated interim financial statements. Other accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2005.

New accounting policies adopted

Investments – Investments, other than investments in subsidiaries and associates, are initially measured at cost on a trade date basis, which is the fair value of the consideration given including transaction costs.

Investments are classified into the following categories:

- Held to maturities;
- Held-for-trading; and
- Available-for-sale.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost less any allowance for impairment. Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in interest income over the term of the investment. Held-to-maturity investments are included in non-current assets unless they mature within twelve months of the balance sheet date.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Investments held for trading are included in current assets.

All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale. Available-for-sale investments are classified as current assets if management intends to realise them within twelve months of the balance sheet date.

Available-for-sale and held-for-trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date, without any deduction for transaction costs that the Group may incur on their sale or other disposal. Where a quoted market price does not exist, these instruments are measured at management's estimate of fair value.

Loans Receivable – Loans receivable are measured at amortised cost using the effective interest rate method.

4. NEW SUBSIDIARIES

During the six months period ended June 30, 2006 the following subsidiaries were added to the Group:

Subsidiary	**Share in new subsidiary**
LLC "Magnit-Nizhniy Novgorod"	51.00%
LLC "Tandem"	51.00%

On January 30, 2006 OJSC "Magnit" formed a subsidiary, LLC "Magnit-Nizhny Novgorod", for retail trade in the city of Nizhny Novgorod with the share of OJSC "Magnit" in the new subsidiary of 51%. As the result of this operation minority interest of USD 362 thousand was recognized in the consolidated financial statements.

100% of LLC "Tandem" was contributed in the share capital of LLC "Magnit-Nizhny Novgorod" by its minority shareholders – Mr. Vaskovskyi I.G., Mr. Kanashkin I.Y. and Mr. Osokin E.V. The net assets of LLC "Tandem" contributed and the goodwill arising from this operation are as follows:

	Fair value 000'USD
Net asset acquired	287
Minority interest	(141)
Goodwill	216
Total consideration (non-cash)	**362**

Net assets of LLC "Tandem" were valued by independent professionally qualified appraisers at the fair value as of January 01, 2006. During the period February-June 2006 new subsidiaries had a loss on operations.

5. PROPERTY, PLANT AND EQUIPMENT, NET

Movements of property, plant and equipment for the six months period ended June 30, 2006 consisted of the following:

'000 USD	Buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
At December 31, 2005 (audited)	44,726	79,491	29,118	30,405	183,740
Acquired on acquisition of subsidiary	-	463	-	509	972
Additions	23,072	18,038	13,664	42,948	97,722
Transfers	10,318	527	872	(11,717)	-
Disposals	(628)	(120)	(69)	(259)	(1,076)
Currency translation adjustment	3,462	5,380	2,117	2,533	13,492
At June 30, 2006 (unaudited)	80,950	103,779	45,702	64,419	294,850
Accumulated Depreciation					
At December 31, 2005 (audited)	(1,686)	(19,741)	(2,205)	-	(23,632)
Charge for the year	(863)	(9,042)	(1,904)	-	(11,809)
Eliminated on disposals	36	22	29	-	87
Currency translation adjustment	(123)	(1,420)	(175)	-	(1,718)
At June 30, 2006 (unaudited)	(2,636)	(30,181)	(4,255)	-	(37,072)
Net Book Value					
At December 31, 2005 (audited)	**43,040**	**59,750**	**26,913**	**30,405**	**160,108**
At June 30, 2006 (unaudited)	**78,314**	**73,598**	**41,447**	**64,419**	**257,778**

At June 30, 2006 and December 31, 2005, no property, plant and equipment were pledged to secure short-term and long-term loans granted to the Group.

At June 30, 2006 and December 31, 2005, other assets include vehicles held under a number of finance lease agreements (Note 11). The carrying amount of leased vehicles at June 30, 2006 was USD 25,729 thousand, additions of leased property for the period equals to USD 10,796 thousand.

6. RECEIVABLES AND PREPAYMENTS, NET

Receivables and prepayments as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006 ‘000 USD (unaudited)	December 31, 2005 ‘000 USD (audited)
Trade receivables from third parties	12,577	1,117
VAT reimbursable	10,215	19,150
Advances paid to suppliers – third parties	46,546	24,751
Other taxes receivable	911	3,898
Other receivables and prepayments	6,486	2,438
Trade receivables from related parties (Note 17)	866	241
Advances paid to suppliers – related parties (Note 17)	908	572
Less: allowance for doubtful accounts	(3,242)	(2,116)
Total	**75,267**	**50,051**

7. SHORT-TERM INVESTMENTS

Short-term investments as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006 ‘000 USD (unaudited)	December 31, 2005 ‘000 USD (audited)
Promissory notes receivable – third parties	30,363	-
Bank deposits receivable	10,340	-
Loans receivable from third parties	1,081	-
Total	**41,784**	**-**

Promissory notes receivable consist of notes purchased for trading purposes from various Russian banks.

Deposits in Russian Roubles are placed with LLC KB Sistema, a related party, bear interest at 12% per annum and mature in February 22, 2007 and March 9, 2007.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006 ‘000 USD (unaudited)	December 31, 2005 ‘000 USD (audited)
Petty cash	3,523	2,766
Cash in banks, in RUB	6,563	18,896
Cash in transit	7,810	24,109
Total	**17,896**	**45,771**

Cash in transit represents cash collected from the Group's stores as of the end of the working day and not deposited to bank accounts as June 30, 2006 and December 31, 2005.

9. SHARE CAPITAL AND SHARE PREMIUM

At June 30, 2006 the authorized share capital of the Company was 200,850,000 ordinary shares with a par value of RUB 0.01 of which 72,000,000 shares were issued and fully paid.

	Nominal par value	Number of shares issued and fully paid as of June 30, 2006	June 30, 2006 '000 USD (unaudited)	Number of shares issued and fully paid as of December 31, 2005	December 31, 2005 '000 USD (audited)
Magnit OJSC	RUR 0.01	72,000,000	27	64,946,754	23
Total			**27**		**23**

In March 2006 the new issue of 7,053,246 shares was registered by the Regional Department for the Southern Federal District of the Russian Federal Financial Market Service (FFMS). The new issued ordinary shares were offered to one of existing shareholders by closed subscription. Selling price of one share was determined by the Board of Directors as 711.53 RUB for 1 share.

	June 30, 2006 '000 USD (unaudited)	December 31, 2005 '000 USD (audited)
Share premium		
Issue of 2,758,153 ordinary shares of RUB 0.01 each for a total amount of RUB 4,138 thousand in September 2005	152	143
Issue of 7,053,246 ordinary shares of RUB 0.01 each for a total amount of RUB 5,018,596 thousand in March 2006	185,330	-
Total	**185,482**	**143**

10. LONG-TERM LOANS AND BONDS

Long-term loans and bonds as of June 30, 2006 and December 31, 2005 consisted of the following:

	Currency	Annual interest rate	June 30, 2006 '000 USD (unaudited)	December 31, 2005 '000 USD (audited)
Bonds	RUB	9.34%	67,759	69,707
Sberbank, Stavropol branch	RUB	10%	-	19,109
Sberbank, Krasnodar branch	RUB	8%-10%	-	10,423
International Moscow Bank	RUB	9%	-	5,212
			67,759	104,451
Current portion of long-term loans		8%-12%	-	(25,100)
Total long-term loans			**67,759**	**79,351**

Bonds – In November 2005 the Group issued bonds of RUB 2,000,000 thousand maturing in November 2008. Interest is paid twice a year in May and November. The bonds are listed on the Moscow Interbank Currency Exchange ("MICEX").

The total amount outstanding as of December 31, 2005 is RUB 2,000,000 thousand (USD 69,486 thousand), net of direct issue costs of RUB 13,096 thousand (USD 455 thousand), plus interest accrued of RUB 19,448 thousand (USD 676 thousand).

The total amount outstanding as of June 30, 2006 is RUB 2,000,000 thousand (USD 73,858 thousand), net of direct issue costs of RUB 13,096 thousand (USD 484 thousand), plus interest accrued for November and December 2005 of RUB 19,448 thousand (USD 718 thousand) and for the six months period ended June 30, 2006 of RUB 92,632 thousand (USD 3,354 thousand), less interest paid of RUB 93,148 thousand (USD 3,373 thousand), and less bonds that were purchased back by the Group during the six months period ended June 30, 2006 of RUB 170,991 thousand (USD 6,314 thousand).

Loans – During the six months period ended June 30, 2006 the Group repaid in full two loans from Sberbank and a loan from International Moscow Bank outstanding as of December 31, 2005 that were due to mature in May-June 2007 and March 2007, respectively.

11. SHORT-TERM AND LONG-TERM OBLIGATIONS UNDER FINANCE LEASES

Short-term and long-term obligations under finance leases as of June 30, 2006 and December 31, 2005 consisted of the following:

'000 USD	**Minimum lease payments June 30, 2006 (unaudited)**	**Minimum lease payments December 31, 2005 (audited)**	**Present value of minimum lease payments June 30, 2006 (unaudited)**	**Present value of minimum lease payments December 31, 2005 (audited)**
Amounts payable under finance leases				
Within one year	8,102	5,915	6,395	4,996
Between one and two years	6,473	2,846	5,820	2,433
Over two years	3,515	1,068	3,348	1,033
	18,090	9,829	15,563	8,462
Less: future finance charges	(2,528)	(1,438)	N/A	N/A
Effect of foreign exchange rates on lease obligations	1	71		
Present value of lease obligations	15,563	8,462		
Less: Amount due for settlement within 12 months			(6,395)	(4,996)
Amount due for settlement after 12 months			**9,168**	**3,466**

The Group has entered into certain lease agreements with Hansa-Leasing, Raiffeisen-Leasing, DeltaLeasing, Europlan and Resotrast for the rent of vehicles for an average lease term of 3-4 years. The average borrowing rate for 6 months 2006 and 2005 was 19% . Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Lease obligations are denominated in RUB, USD and Euro. All lease payments are denominated in RUB.

The fair value of the Group's lease obligations approximates their carrying amount.

12. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006 '000 USD (unaudited)	December 31, 2005 '000 USD (audited)
Accrued salaries and wages	10,844	8,560
Advances from customers – third parties	23,760	22,001
Advances from customers – related parties	578	-
Other accrued expenses	388	626
Short-term obligations under finance leases	6,395	4,996
Taxes payable	8,894	19,113
Other payables to third parties	4,689	2,235
Total	**55,548**	**57,531**

13. SHORT-TERM LOANS

Short-term loans as of June 30, 2006 and December 31, 2005 consisted of the following:

	Currency	Annual interest rate	June 30, 2006 '000 USD (unaudited)	December 31, 2005 '000 USD (audited)
Short-term loans from third parties	RUB	various	6,873	49,700
Short-term loans from related parties	RUB	0%	803	19
Current portion of long-term loans	RUB	8%-12%	-	25,100
Total short-term loans			**7,676**	**74,819**

14. REVENUE

Revenue for the six months periods ended June 30, 2006 and June 30, 2005 consisted of the following:

	6 months 2006 '000 USD (unaudited)	6 months 2005 '000 USD (unaudited)
Retail	1,050,306	679,613
Wholesale	23,705	14,079
Total	**1,074,011**	**693,692**

15. COST OF SALES

Cost of sales, classified by function for the six months periods ended June 30, 2006 and June 30, 2005 consisted of the following:

	6 months 2006 '000 USD (unaudited)	6 months 2005 '000 USD (unaudited)
Retail	864,412	581,336
Wholesale	20,395	13,293
Total	**884,807**	**594,629**

Cost of sales, classified by nature, for the six months periods ended June 30, 2006 and June 30, 2005 consisted of the following:

	6 months 2006 '000 USD (unaudited)	6 months 2005 '000 USD (unaudited)
Cost of goods sold	878,965	587,531
Transportation expenses	7,199	6,843
Losses due to inventory shortages	4,568	2,837
Rebates and promotional bonuses received from suppliers	(5,925)	(2,582)
Total	**884,807**	**594,629**

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months periods ended June 30, 2006 and June 30, 2005 consisted of the following:

	6 months 2006 '000 USD (unaudited)	6 months 2005 '000 USD (unaudited)
Payroll and related taxes	82,831	48,662
Rent and utilities	39,288	16,771
Depreciation	11,809	6,705
Packaging and raw materials	4,441	1,840
Bank services	1,946	1,212
Fuel	1,713	1,524
Repair and maintenance	1,481	3,423
Taxes, other than income tax	1,084	525
Allowance for doubtful debts	973	485
Other expenses	7,078	6,355
Total	**152,644**	**87,502**

17. FINANCE COSTS, NET

Finance costs for the six months periods ended June 30, 2006 and June 30, 2005 consisted of the following:

	6 months 2006 '000 USD (unaudited)	6 months 2005 '000 USD (unaudited)
Interest income	497	4
Interest expense	(6,859)	(5,199)
Total	**(6,362)**	**(5,195)**

18. INCOME TAX

The statutory tax rate effective in the Russian Federation, the location of all of the Group's entities, was 24% in 2005 and for the six months period ended June 30, 2006.

The Group's provision for the six months periods ended June 30, 2006 and June 30, 2005 is as follows:

	6 months 2006 '000 USD (unaudited)	6 months 2005 '000 USD (unaudited)
Current tax	7,038	265
Deferred tax	1,067	288
Total income tax expense	**8,105**	**553**

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

19. TRANSACTIONS WITH RELATED PARTIES

Related party balances as of June 30, 2006 and December 31, 2005 consisted of the following:

	June 30, 2006		December 31, 2005	
'000 USD	**Associated entities (unaudited)**	**Shareholders (unaudited)**	**Associated entities (audited)**	**Shareholders (audited)**
Trade receivables	832	-	241	-
Advances paid	20	838	502	-
Other receivables	19	27	-	-
Trade payables	2,362	-	1,939	-
Advances received	546	-	-	-
Other payables	61	277	-	-
Loans payable	-	803	-	19

The Group's operations with related parties for the six months periods ended June 30, 2006 and June 30, 2005 consisted of the following:

	6 months 2006		6 months 2005	
'000 USD	**Associated entities**	**Shareholders**	**Associated entities**	**Shareholders**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
Loans obtained	-	788	63	-
Sales of merchandise	1,288	-	-	-
Deposit	10,139	-	-	-

Transactions with related parties are performed on terms that would not necessarily be available to third parties.

Loans from related parties are interest free and unsecured. These loans are stated at cost as the discounting effect is immaterial.

The remuneration of Group management and members of the Board of directors of Group companies for the 6 months 2006 and 2005 was USD 113 thousand and USD 420 thousand, respectively.

20. CAPITAL AND RENT COMMITMENTS

As of June 30, 2006 and December 31, 2005 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	June 30, 2006 '000 USD	**December 31, 2005 '000 USD**
	(unaudited)	**(unaudited)**
Commitments for the acquisition of property, plant and equipment	4,396	14,137

The Group entered in a number of short-term and long-term rent agreements. The commitments as of June 30, 2006 fall due as follows:

	'000 USD
	(unaudited)
Within one year	47,246
In the second to fifth years inclusive	61,689
After five years	16,264
Total	**125,199**

21. EVENTS AFTER THE BALANCE SHEET DATE

Management of the Group believes that there were no significant events after the balance sheet date that shall be disclosed in the notes.

22. CONTINGENCIES

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

Russian Federation Tax and Regulatory Environment – The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the 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 their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects could be significant.

Insurance – The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in developed markets are not yet generally available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

23. RISK MANAGEMENT POLICIES

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

Interest Rate Risk – The Group is not exposed to interest rate risk since all its borrowings and bonds have a clearly defined stable interest rate, other than in respect of short-term borrowings which expose the Group to the risk of refinancing at different interest rates. The Group does not hedge its interest.

Currency Risk – Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. With the exception of finance leases, materially, all borrowings and trading activities are denominated in Russian Roubles.

Credit Risk – The Group is exposed to credit risk on relatively little of its revenue, as most of its sales are on a cash basis. The Group's credit risk is primarily attributed to its other receivables. The Group does not hedge its credit risk.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management considers the fair values of financial instruments held by the Group did not materially differ from their carrying values.