Open Joint Stock Company "Magnit" and its subsidiaries

Independent Auditors' Report

Consolidated Financial Statements
Year Ended December 31, 2005

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

TABLE OF CONTENTS

OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group at December 31, 2005 and the results of its operations and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 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 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 consolidated financial statements for the year ended December 31, 2005 were approved on March 15, 2006 by:

Sergey Galitskiy
General director of CJSC "Tander"

Alexander Prisyazhnyuk
Financial director of OJSC "Magnit"

Vladimir Gordeichuk
General director of OJSC "Magnit"

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INDEPENDENT AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Open Joint Stock Company “Magnit”:

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company “Magnit” and its subsidiaries (the “Group”) as at December 31, 2005 and the related consolidated statements of operations, changes in equity and cash flows for the year then ended (the “financial statements”). These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2005, and the consolidated results of the Group’s operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

March 15, 2006

OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2005

	Notes	December 31, 2005 '000 USD	December 31, 2004 '000 USD
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment, net	7	160,108	93,921
Intangible assets		350	188
Long-term investments		-	4
		160,458	94,113
CURRENT ASSETS:			
Merchandise		151,276	77,888
Trade accounts receivable, net	8	979	4,500
Value added tax and other taxes receivable	9	19,150	14,480
Advances paid, net	10	23,586	6,075
Other receivables	11	6,336	2,826
Short-term investments		-	303
Cash and cash equivalents	12	45,771	19,742
		247,098	125,814
TOTAL ASSETS		407,556	219,927
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	13	23	23
Share premium	13	143	148
Retained earnings		49,022	13,385
Future distribution reserve		-	1,554
		49,188	15,110
NON-CURRENT LIABILITIES:			
Long-term loans and bonds	14	79,351	3,161
Long-term obligations under finance leases	15	3,466	922
Deferred tax liabilities, net	26	10,978	8,270
		93,795	12,353
CURRENT LIABILITIES:			
Trade accounts payable	16	132,223	108,346
Other payables and accrued expenses	17	33,422	5,624
Taxes payable	18	19,113	4,933
Short-term obligations under finance leases	15	4,996	643
Short-term loans	19	74,819	72,918
		264,573	192,464
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		407,556	219,927

The notes on pages 7 to 28 form an integral part of these consolidated financial statements.

Signed on behalf of the Board ________________ Date 15/05/06

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Notes	2005 ‘000 USD	2004 ‘000 USD
REVENUE	20	1,577,672	848,539
COST OF SALES	21	(1,312,878)	(739,816)
GROSS PROFIT		264,794	108,723
Selling, general and administrative expenses	22	(200,966)	(99,733)
OPERATING PROFIT		63,828	8,990
Interest income		9	4
Interest expense	23	(12,881)	(5,323)
Net finance costs		(12,872)	(5,319)
Other income	24	4,253	1,079
Other expenses	25	(5,179)	(3,477)
PROFIT BEFORE INCOME TAX		50,030	1,273
INCOME TAX	26	(13,198)	(2,953)
NET PROFIT / (LOSS)		36,832	(1,680)
Average number of ordinary shares of OJSC “Magnit” outstanding (Note 3)		64,946,754	64,946,754
Earnings / (loss) per share, USD per share (Note 3)		0.567	(0.026)

The notes on pages 7 to 28 form an integral part of these consolidated financial statements.

Signed on behalf of the Board ____________ Date 15/05/06

OPEN JOINT STOCK COMPANY “MAGNIT” AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2005

‘000 USD	**Share capital**	**Share premium**	**Future distribution reserve**	**Retained earnings**	**Total**
Balance January 1, 2004	**22**	**140**	**1,464**	**14,254**	**15,880**
Net loss for the year	-	-	-	(1,680)	(1,680)
Currency translation differences for the year	1	8	90	811	910
Balance December 31, 2004	**23**	**148**	**1,554**	**13,385**	**15,110**
Net profit for the year	-	-	-	36,832	36,832
Group reorganization (Note 2)	-	-	(1,498)	-	(1,498)
Currency translation differences for the year	-	(5)	(56)	(1,195)	(1,256)
Balance December 31, 2005	**23**	**143**	**-**	**49,022**	**49,188**

The notes on pages 7 to 28 form an integral part of these consolidated financial statements.

Signed on behalf of the Board ____________________ Date 15/08/06

OPEN JOINT STOCK COMPANY "MAGNIT" AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 '000 USD	2004 '000 USD
OPERATING ACTIVITIES:		
Profit before income tax	50,030	1,273
Adjustments for:		
Depreciation	15,056	6,107
(Loss)/gain on disposal of property, plant and equipment	108	(15)
Change in provision for doubtful receivables	546	457
Other adjustments	(362)	(741)
Finance costs, net	12,872	5,319
Operating cash flow before movements in working capital	78,250	12,400
Decrease in trade accounts receivable	3,357	5,074
Increase in advances paid	(18,557)	(6,307)
Increase in other receivables	(3,682)	(2,588)
Increase in taxes receivable, net	(5,293)	(6,031)
Increase in merchandise	(77,686)	(36,359)
Increase in trade accounts payable	28,316	49,529
Increase in other payables	35,643	4,358
Increase in taxes payable	7,667	2,579
Cash provided by operations	48,015	22,655
Income tax paid	(3,161)	(316)
Interest paid	(11,436)	(5,319)
Net cash provided by operating activities	33,418	17,020
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(78,339)	(59,045)
Purchase of intangible assets	(172)	(175)
Proceeds on disposal of property, plant and equipment	1,214	854
Purchase of investments	(5,619)	(24,964)
Proceeds from sale of investments	5,921	27,518
Cash cost of shares acquired during the Group reorganization	(1,527)	-
Net cash used in investing activities	(78,522)	(55,812)
FINANCING ACTIVITIES:		
Proceeds from borrowings	679,311	383,998
Repayment of borrowings	(597,866)	(334,583)
Payment of bond issue costs	(464)	-
Repayment of obligations under finance lease	(8,608)	(1,026)
Net cash from financing activities	72,373	48,389
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(1,240)	933
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,029	10,530
CASH AND CASH EQUIVALENTS, beginning of year	19,742	9,212
CASH AND CASH EQUIVALENTS, end of year	45,771	19,742

The notes on pages 7 to 28 form an integral part of these consolidated financial statements.

Signed on behalf of the Board ____________ Date 15/03/06

1. NATURE OF THE BUSINESS

Close Joint Stock Company "Magnit" was incorporated in Krasnodar, Russian Federation, in November 2003, and subsequently in January 2006 changed its legal form to Open Joint Stock Company "Magnit" (the "Company" or OJSC "Magnit"). There was no change in the principal activities or shareholders as a result of this. The ownership structure of the Company is detailed in Note 13.

OJSC "Magnit" is a holding company for a group of entities (the "Group") that operate 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% 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 14). The bonds were issued with guarantees from the Group companies – CJSC "Tander" and CJSC "Magnit" (now OJSC "Magnit").

The principal activities of the Group's subsidiaries as of December 31, 2005, 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 "Alkotrading"	Holding licenses for alcohol sales

As of December 31, 2005 the Group had the following number of retail shops:

Federal district	Number of shops
Southern	684
Central	379
Volga	368
North-Western	61
Urals	8
Total number of shops	**1,500**

The average number of employees of the Group for the years ended December 31, 2005 and 2004 was 24,870 and 13,331 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.

Concentration of Business Risk – The Group's business activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

2. REORGANIZATION OF THE GROUP'S CORPORATE STRUCTURE

In 2005 and early 2006 the Group reorganized its corporate structure, which resulted in OJSC "Magnit" being the holding company of the Group and its subsidiaries. In 2004 there was no formal legal structure in place which would allow for consolidation based on ownership; however, the companies of the Group conducted their business as a unified group.

Movements in share capital and share premium are further disclosed in Note 13.

3. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation **–** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The Group's transition date for the purpose of its application of IFRS 1 – "First Time Adoption of International Reporting Standards" – is January 1, 2004. The term IFRS includes standards and interpretations approved by the International Accounting Standards Board ("IASB"), including International Accounting Standards and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB. Note 5 sets out significant balance sheet adjustments made by the Group in the process of transition to IFRS.

As described in Note 2, in 2004 there was no formal legal structure in place which would allow for consolidation based on ownership; however, the companies of the Group conducted their business as a unified group under common control. During 2005 the Group reorganized its corporate structure which resulted in CJSC "Magnit" becoming the holding company. The IFRS comparative information presented in the consolidated financial statements for 2004 have been prepared by management as if the reorganization of the Group's corporate structure took place of the beginning of the earliest year presented and therefore OJSC "Magnit" consolidated all Group companies from the effective date of transition to IFRS 1, as if it had always been the holding company of the Group.

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 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.

The consolidated financial statements of the Group are prepared on the historical cost basis. As allowed by IFRS 1 the Group determined the carrying value of buildings by using the results of an independent appraisal of the fair value of those assets in its opening balance sheet as of January 1, 2004. These values were treated as the deemed cost (Note 7).

Use of Estimates and Assumptions – The preparation of 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 December 31, 2005 and for 2004 was 28.7825 RUB/1 USD and 27.7487 RUB/1 USD, respectively. The average rate for 2005 and 2004 was 28.2262 RUB/1 USD and 28.8167 RUB/1 USD, respectively.

Earnings / (loss) per Share – Earnings / (loss) per share have been determined using the weighted average number of the Company's shares outstanding during the years ended December 31, 2005 and 2004 after giving consideration to the effect of the reorganization of the Group's corporate structure detailed in Note 2.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently in the preparation of the financial statements.

Basis of Consolidation – The consolidated financial statements incorporate the financial statements of the Company and other enterprises, where the Company, directly or indirectly exercises control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

All significant intercompany transactions, balances and unrealized gains (losses) on transactions are eliminated on consolidation.

Revenue Recognition – The Group generates and recognizes sales to retail customers at the point of sale in its stores and sales to wholesale customers at the point of sale in its distribution centres. Revenues are measured at the fair value of the consideration received or receivable and recognized net of value added tax.

Property, Plant and Equipment – Property, plant and equipment, other than buildings, is stated at cost.

Where historical cost information was not available, management has used valuations performed by independent professionally qualified appraisers to arrive at the fair value cost as of the date of transition to IFRS. These values were treated as the deemed cost. The basis of valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value. Some of the property, plant and equipment is of a specialized nature and valued at their depreciated replacement cost. For each item of property, plant and equipment, its new replacement cost was then adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence, in arriving at the fair value of the asset.

Capitalized cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to income statement as incurred. Buildings placed into operation are initially recognized at cost.

The carrying value of property, plant and equipment, other than buildings, as determined above, less expected residual value, is depreciated on a straight-line basis over the estimated remaining useful economic lives of the related assets, which are:

Description	**Useful life, years**
Machinery and equipment	3 – 30
Other fixed assets	5 – 30

Other fixed assets consist of vehicles and other relatively small groups of fixed assets.

Concurrent with the revaluation, the Group also undertook a detailed review of the remaining useful lives of buildings. The estimated remaining economic useful life has been determined as follows:

Description	**Useful life, years**
Buildings	30

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Impairment of Tangible Non-Current Assets – At each balance sheet date, the Group reviews the carrying amount of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of an asset's net selling price and its value in use, which is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land, buildings or equipment, carried at a revalued amount, in which case the impairment loss is treated as a decrease in revaluation surplus.

Finance Leases – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leased assets are depreciated over their estimated useful economic lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset.

Inventories (Merchandise) – Inventories are stated at the lower of cost or net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Bonuses Received from Suppliers – The Group receives various types of bonuses from suppliers in the form of slotting fees, volume discounts and other forms of payments that effectively reduce the cost of goods purchased from the supplier or the cost of promotional activities conducted by the Group that benefit the supplier.

Bonuses received from suppliers are presumed to be a reduction in prices paid for the product and are recognized in cost of sales.

Accounts Receivable – Accounts receivable are stated at original cost after deducting provisions for estimated irrecoverable amounts.

Cash and Cash Equivalents – Cash includes petty cash and cash held on current bank accounts. Cash equivalents include short-term investments that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

Bank Loans and Other Non-Bank Borrowings – All loans and borrowings are initially recorded at the proceeds received, net of direct issue costs. After initial recognition all loans and borrowings are subsequently measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

Borrowing Costs – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Trade and Other Payables – Liabilities for trade and other amounts payable are stated at their nominal value.

Value Added Tax on Purchases and Sales – Value added taxes (VAT) related to sales is payable to the tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognized in the balance sheet on a gross basis. Where provision has been made against debtors deemed to be uncollectible, a bad debt expense is recorded for the gross amount of the debtor, including VAT.

Income Taxes – Income taxes have been computed in accordance with the laws of the Russian Federation. The charge for current tax is based on the tax accounting records calculated using income tax rates enacted for the year and adjusted for items that are non-assessable or non-tax deductible.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

Deferred tax is calculated at rates that are expected to apply to the period when the asset is realized or the liability is settled. It is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement Benefit Costs – 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. Any related expenses are recognized in the income statement as incurred. There is no unfunded element at the balance sheet date.

Segment Reporting – The Group's business operations are located in the Russian Federation and relate primarily to food retail. Therefore, business activities are subject to the same risks and returns and addressed in the consolidated financial statements of the Group as one reportable segment.

5. EXPLANATION OF TRANSITION TO IFRS

2005 is the first year that the Group has presented its full set of financial statements under IFRS. The transition to IFRS is accounted for in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards", with January 1, 2004 as the date of transition.

The subsidiaries of the Group do not prepare standalone IFRS financials statements. The Group does not prepare statutory consolidated financial statements.

Significant balance sheet adjustments that were made by the Group in the process of transition from the statutory accounting records to IFRS consolidated financial statements are presented below:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
NON-CURRENT ASSETS:		
Property, plant and equipment restatement	31,496	31,931
Capitalization of property, plant and equipment	9,586	3,406
Leased vehicles	8,729	2,679
CURRENT ASSETS:		
Merchandise write-off	(7,158)	(7,131)
Bad debt allowance	(2,116)	(1,640)
NON-CURRENT LIABILITIES:		
Recording of long-term obligations under finance leases	3,466	922
Recording of deferred tax liabilities	10,978	8,270
CURRENT LIABILITIES:		
Provisions	1,136	767
Recording of short-term obligations under finance leases	4,996	643

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group prepares its consolidated financial statements in accordance with IFRS. The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including the disclosure of contingent assets and contingent liabilities and the reported amounts of revenue and expenses during the reported period. The Group's critical accounting policies are those that are most important to its financial condition and results of operations and those that require the most difficult, subjective or complex judgments by the management of the Group. On an on-going basis, management of the Group evaluates its estimates and assumptions. Management of the Group bases its estimates and assumptions on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the Group's consolidated financial statements, actual results may vary from these estimates.

Management of the Group believes that the following policies are the Group's critical accounting policies. For a summary of all of the Group's significant accounting policies, including the critical accounting policies discussed below, refer to Note 4.

Principles of Consolidation – The consolidated financial statements incorporate the financial statements of the Company and other enterprises, where the Company, directly or indirectly exercises control.

All significant intercompany transactions, balances and unrealized gains (losses) on transactions are eliminated on consolidation.

Inventories (Merchandise) – Inventories are stated at the lower of cost or net realizable value. Cost comprises the direct cost of goods, transportation and handling costs. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Management of the Group regularly reviews the need to provide for merchandise obsolescence taking into account the high turnover of its merchandise. The Group estimates the amount of losses due to shortages based on physical counts.

Impairment of Tangible Non-Current Assets – At each balance sheet date, the Group reviews the carrying amount of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Such assessments are a subjective matter.

Taxation – Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. While most of the Group's tax declarations have been inspected without significant penalties, these inspections do not eliminate the possibility of re-inspection.

Management of the Group believes that the Group has adequately provided for tax liabilities in its financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

The Group recognises deferred tax assets and liabilities for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carry forwards using enacted tax rates expected to be in effect at the time these differences are realised. The Group records valuation allowances for deferred tax assets when it is more likely than not that these assets will not be realised.

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as of December 31, 2005 and 2004 consisted of the following:

'000 USD	Buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
At December 31, 2004	24,888	50,027	10,160	18,147	103,222
Additions	-	-	8,729	78,339	87,068
Transfers	21,955	32,251	10,994	(65,200)	-
Disposals	(815)	(374)	(18)	-	(1,207)
Currency adjustment	(1,302)	(2,413)	(747)	(881)	(5,343)
At December 31, 2005	44,726	79,491	29,118	30,405	183,740

'000 USD	Buildings	Machinery and equipment	Other assets	Construction in progress	Total
Accumulated Depreciation					
At December 31, 2004	(687)	(7,686)	(928)	-	(9,301)
Charge for the year	(1,061)	(12,651)	(1,344)	-	(15,056)
Eliminated on disposals	17	77	7	-	101
Currency adjustment	45	519	60	-	624
At December 31, 2005	(1,686)	(19,741)	(2,205)	-	(23,632)
Net Book Value					
At December 31, 2004	**24,201**	**42,341**	**9,232**	**18,147**	**93,921**
At December 31, 2005	**43,040**	**59,750**	**26,913**	**30,405**	**160,108**

The Group's buildings were revalued as of January 1, 2004 by CJSC "Otsenka Consulting", independent valuers not connected with the Group. The valuation conforms to International Valuation Standards.

At December 31, 2005, no property, plant and equipment were pledged to secure short-term and long-term loans granted to the Group. At December 31, 2004 property, plant and equipment with a net book value of USD 8,423 thousand, respectively, were pledged to secure certain short-term and long-term loans granted to the Group that were repaid in full during 2005.

At December 31, 2005 and 2004, other assets include vehicles held under a number of finance lease agreements (Note 15). The carrying amount of leased vehicles at December 31, 2005 and 2004 was USD 10,209 thousand and USD 2,578 thousand, respectively. Additions for the years ended December 31, 2005 and 2004 amounted to USD 8,729 thousand and USD 2,679 thousand, respectively.

At December 31, 2005, had the buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately USD 23,213 thousand.

8. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Trade receivables from related parties	241	309
Trade receivables from third parties	1,117	4,515
Less: provision for doubtful trade receivables	(379)	(324)
Total	**979**	**4,500**

9. VALUE ADDED TAX AND OTHER TAXES RECEIVABLE

Value added tax ("VAT") and other taxes receivable as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
VAT reimbursable	19,150	14,463
Other taxes receivable	-	17
Total	**19,150**	**14,480**

10. ADVANCES PAID, NET

Advances paid as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Advances to suppliers – related parties	572	828
Advances to suppliers – third parties	24,751	6,563
Less: provision for doubtful advances	(1,737)	(1,316)
Total	**23,586**	**6,075**

11. OTHER RECEIVABLES

Other receivables as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
VAT and other tax receivables	3,898	198
Settlements with employees	1,471	1,990
Claims to suppliers	279	39
Prepaid expenses	392	346
Other	296	253
Total	**6,336**	**2,826**

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Petty cash	2,766	1,569
Cash in banks, in RUB	18,896	10,396
Cash in transit	24,109	7,777
Total	**45,771**	**19,742**

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 of December 31, 2005 and 2004.

13. SHARE CAPITAL AND SHARE PREMIUM

At December 31, 2005 the authorized share capital of the Company was 200,850,000 ordinary shares with a par value of RUB 0.01 of which 64,946,754 shares were issued and fully paid.

The shareholders of the Company after reorganization (refer to Note 2) consisted of the following:

	% ownership
Galitskyi S.N.	66.45
LABINI INVESTMENTS LIMITED (Cyprus)	22.50
Gordeichuk V.E.	5.50
Panuli N.K.	1.00
Prisyazhnuk A.M.	1.00
Chenikov D.I.	0.60
Arutunyan A.N.	0.50
Butenko V.V.	0.50
Ermolenko A.D.	0.50
Kazakov A.M.	0.50
Smetanin E.A.	0.50
Mescheryakov V.V.	0.15
Belgesov S.N.	0.15
Zakhmatov A.V.	0.15
Total	**100.00**

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Share capital		
Issued 850,000 ordinary shares and 150,000 preferred shares of RUB 0.01 each	0.347	0.360
Redemption of 150,000 preferred shares of RUB 0.01 each in December 2005	(0.052)	(0.054)
Issue of 2,758,153 ordinary shares of RUB 0.01 each in September 2005, fully paid	0.958	0.994
Issue of bonus capital of 61,338,601 ordinary shares of RUB 0.01 each in December 2005, fully paid from net income	21.311	22.105
Total Share capital	**22.564**	**23.405**
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	143	148
Total Share premium	**143**	**148**

The holders of ordinary shares have voting rights but no guarantee of dividends. Distributable profits are determined on the basis of profits reported in the statutory financial statements of the Company. These profits may differ significantly from those profits recorded under IFRS.

No dividends were declared or paid in 2005 and 2004.

14. LONG-TERM LOANS AND BONDS

Long-term loans as of December 31, 2005 and 2004 consisted of the following:

	Currency	Annual interest rate	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Bonds	RUB	9.34%	69,707	-
Sberbank, Stavropol branch	RUB	10%	19,109	-
Sberbank, Krasnodar branch	RUB	8%-10%	10,423	-
International Moscow Bank	RUB	9%	5,212	-
Sberbank, Krasnodar branch	RUB	12%	-	7,208
Gordeychuk V.E.	RUB	0%	-	97
			104,451	7,305
Current portion of long-term loans (Note 19)		8%-12%	(25,100)	(4,144)
Total long-term loans			**79,351**	**3,161**

Bonds – In November 2005 the Group issued bonds of RUB 2,000,000 thousand (USD 69,486 thousand) maturing in November 2008. The total amount outstanding as of December 31, 2005 is RUB 2,000,000 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). Interest is paid twice a year in May and November. The bonds are listed at the Moscow Interbank Currency Exchange ("MICEX").

Sberbank:

Stavropol Branch – In December 2005 the Group entered into a number of credit facilities of RUB 550,000 thousand (USD 19,109 thousand) maturing in June 2007. The facilities bear interest of 10% per annum. Merchandise with a book value of USD 23,681 thousand was pledged to collaterize the outstanding balance as of December 31, 2005.

Krasnodar Branch – In November-December 2005 the Group entered into a number of credit facilities of RUB 300,000 thousand (USD 10,423 thousand) maturing in May 2007. This credit line was unsecured as of December 31, 2005.

Krasnodar Branch – During 2005 the Group repaid in full the facility that was due to mature in September 2007.

International Moscow Bank – In September 2005 the Group entered into a credit line agreement of RUB 150,000 thousand (USD 5,212 thousand) maturing in March 2007. Merchandise with a book value of USD 6,254 was pledged to collaterize the outstanding balance as of December 31, 2005.

Gordeychuk V. E. – During 2005 the Group repaid in full the loan that was due to mature in August 2006.

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

Short-term and long-term obligations under finance leases as of December 31, 2005 and 2004 consisted of the following:

'000 USD	Minimum lease payments December 31, 2005	Minimum lease payments December 31, 2004	Present value of minimum lease payments December 31, 2005	Present value of minimum lease payments December 31, 2004
AMOUNTS PAYABLE UNDER FINANCE LEASES				
Within one year	5,915	1,284	4,996	643
Between one and two years	2,846	844	2,433	470
Over two years	1,068	605	1,033	452
	9,829	2,733	8,462	1,565
Less: future finance charges	(1,438)	(1,127)		
Effect of foreign exchange rates on lease obligations	71	(41)		
Present value of lease obligations	8,462	1,565		
Less: Amount due for settlement within 12 months			(4,996)	(643)
Amount due for settlement after 12 months			**3,466**	**922**

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 2.34 years. The average borrowing rate for 2005 and 2004 was 19% and 23%, respectively. 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.

16. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Trade payables to related parties	1,939	897
Trade payables to third parties	130,284	107,449
Total	**132,223**	**108,346**

17. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Accrued salaries and wages	8,560	4,361
Advances from customers – third parties	22,001	508
Advances from customers – related parties	-	22
Other accrued expenses	626	450
Other payables to third parties	2,235	283
Total	**33,422**	**5,624**

18. TAXES PAYABLE

Taxes payable as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Value Added Tax	8,143	1,759
Unified Social Tax	1,969	1,314
Personal Income Tax	1,327	769
Income tax	7,201	794
Property tax	419	218
Other taxes	54	79
Total	**19,113**	**4,933**

19. SHORT-TERM LOANS

Short-term loans as of December 31, 2005 and 2004 consisted of the following:

	Currency	Annual interest rate	December 31, 2005 '000 USD	December 31, 2004 '000 USD
Sberbank, Krasnodar branch	RUB	8%	17,928	32,054
Alfa Bank	RUB	8.08%-9.5%	17,376	11,172
International Moscow Bank	RUB	7.95%-9.15%	10,085	-
Yugbank	RUB	8%	1,741	1,629
Petrokommerz	RUB	9.8%-13%	-	10,880
Vneshtorgbank	RUB	11.5%-12.5%	-	10,347
Short-term loans from related parties	RUB	0%	19	96
Other short-term loans	RUB	0%	2,570	2,596
Current portion of long-term loans (Note 14)	RUB	8%-12%	25,100	4,144
Total short-term loans			**74,819**	**72,918**

Sberbank, Krasnodar Branch – During 2005 the Group repaid in full the amount outstanding as of December 31, 2004. In December 2005 the Group entered into a credit line agreement of RUB 516,000 thousand (USD 17,928 thousand) maturing in April 2006. This credit line was unsecured as of December 31, 2005.

Alfa Bank – During 2005 the Group repaid in full the amount outstanding as of December 31, 2004. In December 2005 the Group entered into a number of credit line agreements of RUB 580,000 thousand (USD 20,151 thousand) bearing interest from 8.08% to 9.5% per annum and maturing in January-March 2006. The total amount outstanding as of December 31, 2005 is RUB 500,000 thousand plus interest accrued of RUB 122 thousand (USD 17,376 thousand). The credit lines are collaterized by the pledge of merchandise with a book value of USD 10,122 thousand as of December 31, 2005 and by the personal guarantee of Galitskyi S.N., the Group CEO, of USD 20,151 thousand.

International Moscow Bank – In May and August 2005 the Group entered into a number of credit line agreements of RUB 290,000 thousand (USD 10,076 thousand) bearing interest from 7.95% to 9.15% per annum and maturing in May-August 2006. The total amount outstanding as of December 31, 2005 is RUB 290,000 thousand plus interest accrued of RUB 264 thousand (USD 10,085 thousand). The credit lines are collaterized by the pledge of merchandise with a book value of USD 8,338 thousand as of December 31, 2005 and by the personal guarantee of Galitskyi S.N., the Group CEO, of USD 3,127 thousand.

Yugbank – During 2005 the Group repaid in full the amount outstanding as of December 31, 2004. In November 2005 the Group entered into a loan agreement of RUB 50,000 thousand (USD 1,741 thousand) maturing in January 2006. This loan is unsecured as of December 31, 2005.

Petrokommerz – During 2005 the Group repaid in full the amount outstanding as of December 31, 2004.

Vneshtorgbank – During 2005 the Group repaid in full the amount outstanding as of December 31, 2004.

Other short-term loans consist of various loans received from enterprises and individuals with principals varying from RUB 443 (USD 15) to RUB 15,987 thousand (USD 555 thousand). The average principal is RUB 282 thousand (USD 10 thousand). All such loans are interest free, unsecured and repayable in 2006.

20. REVENUE

Revenue for the years ended December 31, 2005 and 2004 consisted of the following:

	2005 **'000 USD**	**2004** **'000 USD**
Retail	1,552,559	813,549
Wholesale	25,113	34,990
Total	**1,577,672**	**848,539**

21. COST OF SALES

Cost of sales, classified by function, for the years ended December 31, 2005 and 2004 consisted of the following:

	2005 '000 USD	2004 '000 USD
Retail	1,289,571	706,133
Wholesale	23,307	33,683
Total	**1,312,878**	**739,816**

Cost of sales, classified by nature, for the years ended December 31, 2005 and 2004 consisted of the following:

	2005 '000 USD	2004 '000 USD
Cost of goods sold	1,298,167	726,312
Transportation expenses	20,053	13,867
Losses due to inventory shortages	7,158	7,131
Rebates and promotional bonuses received from suppliers	(12,500)	(7,494)
Total	**1,312,878**	**739,816**

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2005 and 2004 consisted of the following:

	2005 '000 USD	2004 '000 USD
Payroll and related taxes	112,535	54,800
Rent and utilities	41,712	19,471
Depreciation	15,056	6,107
Repair and maintenance	10,396	5,190
Packaging and raw materials	6,402	4,112
Bank services	2,840	1,366
Security	2,466	1,605
Fuel	2,336	1,276
Taxes, other than income tax	1,729	1,277
Bad debt provision	546	457
Other expenses	4,948	4,072
Total	**200,966**	**99,733**

23. INTEREST EXPENSE

Interest expense for the years ended December 31, 2005 and 2004 consisted of the following:

	2005 '000 USD	2004 '000 USD
Interest on loans	11,190	5,217
Interest on finance leases	1,002	106
Interest on bonds	689	-
Total	**12,881**	**5,323**

24. OTHER INCOME

Other income for the years ended December 31, 2005 and 2004 consisted of the following:

	2005 '000 USD	2004 '000 USD
Third party transportation services	2,138	858
Reimbursement of repair expenses	770	17
Information services	444	144
Claim assignation	242	-
Sundry	659	60
Total	**4,253**	**1,079**

25. OTHER EXPENSES

Other expenses for the years ended December 31, 2005 and 2004 consisted of the following:

	2005 '000 USD	2004 '000 USD
Third party transportation services	1,335	1,694
Rent and utilities	995	107
Repairs	992	375
Working clothes, detergents and cleansers, medicines	120	81
Penalties and fines	69	79
Sundry items individually small in value	1,668	1,141
Total	**5,179**	**3,477**

26. INCOME TAX

The Group's provision for income tax for the years ended December 31, 2005 and 2004 is as follows:

	2005 '000 USD	2004 '000 USD
Current tax	10,135	212
Deferred tax	3,063	2,741
Total income tax expense	**13,198**	**2,953**

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

The movement for 2005 and 2004 in the Group's deferred tax position is as follows:

	2005 '000 USD	2004 '000 USD
Net liability at the beginning of the year	8,270	5,108
Charge for the year	3,063	2,741
Currency adjustment	(355)	421
Net liability at the end of the year	**10,978**	**8,270**

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2005 and 2004 is as follows:

	2005 '000 USD	2004 '000 USD
Deferred tax assets		
Provision for doubtful receivables	69	82
Total	**69**	**82**
Deferred tax liabilities		
Difference in value of property, plant and equipment	11,047	8,352
Total	**11,047**	**8,352**
Net deferred tax liability	**10,978**	**8,270**

The statutory tax rate effective in the Russian Federation, the location of all of the Group’s entities, was 24% in 2005 and 2004. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group’s income statement:

	2005 ‘000 USD	2004 ‘000 USD
Profit before income tax	50,030	1,273
Theoretical income tax at statutory rate of 24%	(12,007)	(306)
Adjustments due to:		
Tax effect of losses due to inventory shortages	(1,717)	(1,711)
Tax effect of write-off of unconfirmed cash	-	(330)
Tax effect of other expenses that are not deductible in determining taxable profit	526	(606)
Income tax expense	**(13,198)**	**(2,953)**

27. TRANSACTIONS WITH RELATED PARTIES

Related party balances as of December 31, 2005 and 2004 consisted of the following:

‘000 USD	December 31, 2005		December 31, 2004	
	Associated entities	Shareholders	Associated entities	Shareholders
Trade receivables	241	-	309	-
Advances paid	502	-	828	-
Trade payables	1,939	-	897	-
Advances received	-	-	22	-
Investments	-	-	5,572	-
Loans	-	-	-	193

The Group’s operations with related parties for the years ended December 31, 2005 and 2004 consisted of the following:

‘000 USD	December 31, 2005		December 31, 2004	
	Associated entities	Shareholders	Associated entities	Shareholders
Purchases of merchandise	6	-	51	-
Purchases of property, plant and equipment	1,492	-	135	-
Rent received	716	-	427	-
Loans obtained	61	1	52	187
Sales of merchandise	7,024	-	6,067	-
Sales of property, plant and equipment	-	-	731	-
Rent paid	158	-	179	-
Loans given	-	-	4,435	-

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

Loans to 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 2005 and 2004 was USD 420 thousand and USD 110 thousand, respectively.

28. CAPITAL AND RENT COMMITMENTS

As of December 31, 2005 and 2004 the Group entered in a number of agreements related to the acquisition of property, plant and equipment:

	2005 '000 USD	2004 '000 USD
Commitments for the acquisition of property, plant and equipment	14,137	16,024

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

	'000 USD
Within one year	25,612
In the second to fifth years inclusive	26,536
After five years	1,955
Total	**54,103**

29. EVENTS AFTER THE BALANCE SHEET DATE

Reorganization:

In January 2006 Closed Joint Stock Company "Magnit" changed its legal form to Open Joint Stock Company "Magnit" (refer to Note 1). The principal activities and the shareholders of Open Joint Stock Company "Magnit" did not change.

LLC "Magnit-Nizhny Novgorod":

On January 30, 2006 OJSC "Magnit" formed a subsidiary, LLC "Magnit-Nizhny Novgorod", for retail trade in the city of Nizhny Novgorod. The share of OJSC "Magnit" in the new subsidiary is 51% at a cost of RUB 10,409 thousand. The remaining 49% is owned by three individuals – Mr. Vaskovskyi I.G. (14.7%), Mr. Kanashkin I.Y. (14.7%) and Mr. Osokin E.V. (19.6%), who together contributed 100% of LLC "Tandem". LLC "Tandem" is engaged in food retail in the city of Nizhny Novgorod.

Issue of shares:

On February 21, 2006 the Company issued 7,053,246 ordinary shares with a par value of RUB 0.01 each. All issued shares were distributed to LABINI INVESTMENTS LIMITED (Cyprus). The price per share will be determined by the Board of Directors of the Company within 180 days of their registration.

30. 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.

31. 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.

32. 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.