LLC “Trade House KOPEYKA”

Consolidated Financial Statements

Year ended December 31, 2003
with Report of independent auditors

LLC “Trade House “Kopeyka”

Consolidated Financial Statements

Year ended December 31, 2003

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ERNST & YOUNG

Ernst & Young (CIS) Limited
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (095) 705-9700
7 (095) 755-9700
Fax: 7 (095) 755-9701
www.ey.com/russia

Эрнст энд Янг (СНГ) Лимитед
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (095) 705-9700
7 (095) 755-9700
Факс: 7 (095) 755-9701
ОКПО: 40128555

Report of independent auditors

To the participants of LLC "Trade House Kopeyka":

1. We have audited the accompanying consolidated balance sheet of LLC "Trade House "Kopeyka" (hereinafter referred to as the "Company" and together with its subsidiaries as the "Group") as of December 31, 2003, and the related consolidated income statement, statements of changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as described in paragraph 5, 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As described in Note 2, Group formation, the Group was formed through a business combination which, under IAS 22, "Business combinations", requires that the identifiable assets and liabilities be measured at their fair values at the date of acquisition and the difference between these values and the cost of acquisition be recorded as goodwill. However, because the purchase consideration involved the exchange of ownership interest, the consideration was not determined. Furthermore, certain property and equipment of the acquired entities was recorded at net book value based on historical cost in the books of these entities instead of fair value as required by IAS 22. The effect of these departures from IAS 22 on (i) the carrying amounts of property and equipment and goodwill, (ii) depreciation and amortization expense, (iii) related deferred tax amounts, and (iv) corresponding disclosures in the accompanying financial statements was not estimated.

4. As described in Note 3, the accompanying financial statements do not include prior year comparative information. Presentation of such comparative information is required in accordance with IAS 1 "Presentation of Financial Statements".

5. We did not observe the counting of the physical inventories as at December 31, 2002, since that date was prior to our engagement as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures. These inventory balances enter materially into the determination of income for the year ended December 31, 2003.

6. In our opinion, except for the effect on the financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to satisfy ourselves as to the inventory quantities as noted in paragraph 5, and except for the effect on the financial statements of the matters referred to in paragraphs 3 and 4, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LLC "Trade House Kopeyka" as of December 31, 2003, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Ernst & Young (CIS) Limited

September 30, 2004

LLC "Trade House "Kopeyka"

Consolidated Balance Sheet

(In thousands of US dollars)

	Notes	December 31, 2003
ASSETS		
Non-current assets		
Property and equipment, net	**10**	$ 52,380
Intangible assets, net	**11**	1,081
Goodwill	**12**	29,993
Deferred income tax asset	**22**	106
Other non-current assets	**15**	726
		84,286
Current assets		
Inventories, net	**5**	10,970
Trade receivables, net	**6**	1,634
Advances paid	**7**	650
Taxes receivable	**8**	5,962
Other current assets	**9**	1,320
Cash and cash equivalents	**4**	2,927
		23,463
TOTAL ASSETS		**$ 107,749**
EQUITY AND LIABILITIES		
Equity		
Registered capital	**16**	92,521
Excess of registered capital over historical cost of assets contributed by the participants		(8,905)
Translation difference		213
Retained earnings		3,917
Total Equity		**87,746**
Non-current liabilities		
Deferred income tax liability	**22**	2,400
Current liabilities		
Trade payables	**13**	14,537
Taxes payable	**14**	2,397
Other current liabilities	**15**	669
		17,603
TOTAL EQUITY AND LIABILITIES		**$ 107,749**

See accompanying notes to consolidated financial statements.

LLC “Trade House “Kopeyka”

Consolidated Income Statement

Year ended December 31, 2003

(In thousands of US dollars)

	Notes		
Revenues			
Retail sales		$	199,171
Wholesale sales			14,499
Other revenues	**19**		4,184
Total revenues			**217,854**
Cost of goods sold	**18**		174,988
Gross profit			**42,866**
Selling, general and administrative expenses	**20**		35,417
Other operating expenses, net			460
Profit from operating activities			**6,989**
Financial income, net	**21**		632
Profit before income taxes			**7,621**
Income tax expense	**22**		2,534
Net profit		**$**	**5,087**

See accompanying notes to consolidated financial statements.

LLC “Trade House “Kopeyka”

Consolidated Statement of Changes in Shareholders’ Equity

Year ended December 31, 2003

(In thousands of US dollars)

	Registered capital	Excess of registered capital over historical cost of assets contributed by the participants	Retained earnings	Translation difference	Total equity
At December 31, 2002	$ 86,605	$ (8,252)	$ 618	**$ –**	**$ 78,971**
Redemption of participant’s interest (Note 16)	(897)	–	(282)	–	**(1,179)**
Net profit for the period	–	–	5,087	–	**5,087**
Dividends (Note 17)	–	–	(1,481)	–	**(1,481)**
Effect of exchange rate changes	6,813	(653)	(25)	213	**6,348**
At December 31, 2003	**$ 92,521**	**$ (8,905)**	**$ 3,917**	**$ 213**	**$ 87,746**

See accompanying notes to consolidated financial statements.

LLC "Trade House "Kopeyka"

Consolidated Statement of Cash Flows

Year ended December 31, 2003

(In thousands of US dollars)

Cash flow from operating activities	
Net profit before income taxes	$ 7,621
Adjustments for:	
Interest income	(693)
Interest expense	61
Depreciation and amortization	4,832
Operating cash flow before working capital changes	11,821
Decrease in trade and other receivables	5,164
Increase in inventories	(2,718)
Increase in taxes receivable	(3,779)
Increase in other assets	(413)
Increase in trade and other accounts payable	1,957
Cash generated from operations	**12,032**
Interest paid	(61)
Income taxes paid	(1,802)
Net cash flows from operating activities	**10,169**
Cash flows from investing activities	
Purchases of property, plant and equipment	(16,519)
Purchase of intangible assets	(544)
Interest received	693
Net cash used in investing activities	**(16,370)**
Cash flow from financing activities	
Redemption of participant's interest	(1,179)
Repayment of short-term borrowings	(8,344)
Dividends paid	(1,481)
Net cash used in financing activities	**(11,004)**
Effect of exchange rate changes on cash and cash equivalents	808
Net decrease in cash and cash equivalents	(16,397)
Cash and cash equivalents at beginning of year	19,324
Cash and cash equivalents at end of year	**$ 2,927**

See accompanying notes to consolidated financial statements.

1. Description of Business

LLC “Trade House “Kopeyka” (further referred to as the “Company”, or, together with its subsidiaries, the “Group”) is a limited liability company incorporated in Russia on May 16, 2002. The consolidated financial statements of the Company for the year ended December 31, 2003 were authorized for issue in accordance with a resolution of the Company’s Meeting of Participants dated July 30, 2004.

As of December 31, 2003, the Company’s participants are LLC Active-Holding (16⅔%), CJSC Kalina (16⅔%), CJSC Korall (16⅔%), A. V. Samonov (30%), S. A. Lomakin (10%), A. K. Khachatryan (10%).

The Group’s principal activity is food retailing. As of December 31, 2003, the Company operated 26 stores and supermarkets on own premises and 21 stores on leased premises in Moscow and the Moscow region, Russia. The Company also granted franchise rights to other store operators. As of December 31, 2003, the Group employed 2,500 employees including 1,500 employees provided to the Group by third parties under several outsourcing service contracts.

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

2. Group Formation

The Group was formed by combining ownership interests held by a group of individuals in LLC “Felma” (80% interest), LLC “Trigger” (100% interest) and LLC “Nex” (100% interest) (collectively referred to as “predecessor entities”) with 20% ownership interest held by ZAO “Yukos-M” in LLC “Felma” and contributing these interests to a new entity, LLC “Trade House Kopeyka”, together with cash contribution of ZAO “Yukos-M” in the amount of $35,840 (1,108,100 thousand rubles). As a result of foundation agreement between the Company’s participants, the control over the predecessor entities was transferred from their former shareholders to ZAO “Yukos-M”, as it received 50.5% ownership interest in the Company, whereas individual shareholders received a non-controlling 49.5% interest. Therefore, contribution of ownership interests in the predecessor entities to the Company in exchange for interests in the Company was accounted for as a purchase business combination in accordance with IAS 22, “Business Combinations”, except for contribution of 20% ownership interest in LLC “Felma” by ZAO “Yukos-M” that was accounted for at historical cost.

2. Group Formation (continued)

In accordance with IAS 22, assets and liabilities of acquired companies should be measured at fair value and any difference between the fair value of acquired net assets and the cost of acquisition should be recognized as goodwill. Cost of acquisition involving exchange of ownership interests should be determined as a fair value of ownership interests contributed to the Company. However, at the time of the Company's formation, no fair value appraisal of the ownership interests contributed to the Company was performed, and these contributions were

accounted for in the amounts equal to nominal value of participants' interests as established in the Company's charter. In addition, the underlying net assets of contributed entities were recorded at book value as stated in the books of the predecessor entities, except for property in the amount of $15,266 (buildings) that was recorded at fair value as determined by independent appraisal. Management considered the book values to be a reasonable approximation of fair values for the acquired net assets, except for the fixed assets in the amount of $10,432 (trade equipment, vehicles and other equipment) that were recorded at book value due to the absence of fair value estimation.

During 2003, the Group acquired the entire share capital of LLC "Sovtranscargo" for $1.12. The results of operations of LLC "Sovtranscargo" were included in the accompanying consolidated income statement from the date of acquisition and had insignificant effect on the consolidated operations. The fair value of the net assets acquired approximated the cost of acquisition.

3. Summary of Significant Accounting Policies

A summary of significant accounting policies which have been applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared under historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), except for omission of prior year comparative information. Prior to 2003, the Group had not prepared consolidated financial statements in accordance with IFRS. It is not practicable to determine the amount of the adjustment to the opening retained earnings related to application of IFRS.

The accompanying financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business.

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

3. Summary of Significant Accounting Policies (continued)

Measurement Currency

Based on the economic substance of the underlying events and circumstances relevant to the Group the measurement currency of Group has been determined to be the Russian Ruble.

Presentation Currency

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

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

The Russian ruble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (the "CBR"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. As of December 31, 2003 the official rate of exchange was 29.4545 rubles = US$1, the average exchange rate for 2003 was 30.6877 rubles = US$1. Any translation of ruble amounts to US dollars should not be construed as a representation that such ruble amounts have been or will be convered into US dollars at the exchange rates shown.

Basis of Consolidation

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

The following wholly owned subsidiaries were consolidated:

- LLC "Kopeyka Moscow",
- LLC "Kopeyka Development",
- LLC "Sovtranscargo",
- LLC "Kopeyka Samara",
- LLC "Kopeyka Development Samara",
- LLC "Kopeyka Moscow Region".

3. Summary of Significant Accounting Policies (continued)

Basis of Consolidation (continued)

LLC "Kopeika-Moscow" is a retail operator for all of the Company's stores.

LLC "Kopeyka-Development" is engaged in the development and management of commercial property in Moscow and the Moscow region, where the Company's stores are located.

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

LLC "Kopeyka Samara", LLC "Kopeyka Development Samara" and LLC "Kopeyka Moscow Region" did not carry out any business activities in 2003.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to conform any dissimilar material accounting policies that may exist.

Hyper-inflation

Effective January 1, 2003, Russia ceased to be a hyperinflationary economy as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies". No adjustment for effects of inflation was recorded from the date of the Company's formation (May, 2002) to December 31, 2002, as its effect would be insignificant on the accompanying financial statements.

Cash and Cash Equivalents

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

Receivables

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

Inventories

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

3. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquired subsequent to the Group formation (see Note 2) are stated at cost, less accumulated depreciation. Depreciation is provided on a straight-line basis over the following anticipated useful economic lives of the assets:

Asset Category	Depreciation Period
Buildings	30 years
Trade equipment	7 years
Vehicles	5-7 years
Fixtures and office equipment	3-5 years

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

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

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

Leased Assets

Rental under operating leases are charged on a straight line basis up to the date of the next rental review.

Goodwill

Goodwill is recognized as an asset on the Company's balance sheet in the year in which it arises, and, subject to impairment review, is amortized on a straight line basis over its estimated useful life not exceeding 20 years. Amortization of goodwill is included in selling, general and administrative expenses.

3. Summary of Significant Accounting Policies (continued)

Social Costs

Social contributions (including contributions to the state pension fund) are made through a unified social tax (“UST”) calculation by the Group by the application of a regressive rate from 2% to approximately 35.6% to the annual gross remuneration of each employee. The Group allocated the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contribution to the pension fund vary from 14% to 25% depending on the annual gross salary of each employee.

The Company’s contributions relating to the UST are expensed in the year to which they relate.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Revenues and Expenses

Revenues and expenses are recognized in the period when revenue is earned and expense is incurred. Revenue is recognized when the title to goods is transferred, and it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.
Revenues consist of sales through food retail supermarkets and stores, wholesale sales and service fees (see Note 19).

Borrowing costs are expensed as incurred.

Income Taxes

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred tax assets when in management’s judgement, it is probable that the deferred tax asset will not be realized.

Use of Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts and balances reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Summary of Significant Accounting Policies (continued)

Financial Instruments and Risk Management Polices

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

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

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

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

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of December 31, 2003:

Cash on hand	$	273
Cash at bank		2,036
Cash to be deposited with banks		618
Total cash and cash equivalents	**$**	**2,927**

Most of cash at bank was held at Bank "Menatep - SPb". As of December 31, 2003, the Group had no restricted cash.

5. Inventories

Inventories as of December 31, 2003 were comprised as follows:

Goods for resale	$	11,108
Other inventories		226
Provision for inventory losses		(364)
Total inventories, net	**$**	**10,970**

Goods for resale consist of stocks in the retail outlets and warehouses. Provision for losses is estimated on the basis of the results of periodic stock-takes.

6. Trade Receivables

Trade receivables consist of the following as of December 31, 2003:

Trade receivables	$	1,646
Allowance for doubtful accounts		(11)
Total trade receivables, net	**$**	**1,634**

Trade receivables are mostly represented by amounts prepaid for repair services.

7. Advances Paid

Advances paid consist of the following as of December 31, 2003:

Prepaid rent	$	554
Other		96
Total advances paid, net	**$**	**650**

8. Taxes Receivable

Taxes receivable consisted of the following as of December 31, 2003:

Input VAT and VAT receivable	$	5,647
Income tax and other taxes receivable		315
Total taxes receivable	**$**	**5,962**

Majority of input VAT receivable represent amounts paid in relation to the purchase of goods for resale, which will be off-set against VAT on sale of goods to customers. The Company believes that amounts are fully recoverable within a year.

9. Other current assets

Other current assets consisted of the following as of December 31, 2003:

Promissory note of LLC "Exploration"	$	1,056
Other current assets		264
Total other current assets	**$**	**1,320**

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

10. Property and Equipment

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

	Buildings	Trade equipment	Vehicles	Other	Construction in progress and advances to contractors	Total
Cost						
Balance as of January 1, 2003	$ 14,147	$ 4,172	$ 599	$ 2,011	$ 15,795	$ 36,724
Additions	–	–	–	–	16,519	16,519
Transfers	23,166	3,541	289	2,676	(29,672)	–
Translation difference	2,089	478	59	271	699	3,596
Balance as of December 31, 2003	**39,402**	**8,191**	**947**	**4,958**	**3,341**	**56,839**
Accumulated depreciation						
Balance as of January 1, 2003	(196)	(538)	(77)	(348)	–	(1,159)
Depreciation for the year	(745)	(1,048)	(258)	(1,029)	–	(3,080)
Translation difference	(47)	(86)	(17)	(70)	–	(220)
Balance as of December 31, 2003	**(988)**	**(1,672)**	**(352)**	**(1,447)**	**–**	**(4,459)**
Net book value	**$ 38,414**	**$ 6,519**	**$ 595**	**$ 3,511**	**$ 3,341**	**$ 52,380**

11. Intangible Assets

The analysis of activity in intangible assets was as follows:

Cost	
Balance at January 1, 2003	$ 726
Additions	544
Translation difference	80
Balance at December 31, 2003	**1,350**
Accumulated amortization	
Balance at January 1, 2003	(60)
Amortization for the year	(196)
Translation difference	(13)
Balance at December 31, 2003	**(269)**
Net intangible assets	**$ 1,081**

The intangible assets include purchased software, licenses and trademarks. Amortization is provided on a straight line basis over the estimated useful lives of the respective assets that averaged 5 years.

12. Goodwill

Cost		
Balance at January 1, 2003	$	30,048
Additions		–
Translation difference		2,377
Balance at December 31, 2003		**32,425**
Accumulated amortization		
Balance at January 1, 2003		(751)
Amortization for the year		(1,556)
Translation difference		(125)
Balance at December 31, 2003		**(2,432)**
Net book value	**$**	**29,993**

As described in Note 2, the exchange of ownership interests in the predecessor entities for ownership interests in the Company was accounted for at the nominal values established in the Company's charter. The excess of nominal values of capital interests attributable to non-controlling participants (total of $42,868) over net assets of the entities acquired by the Group (total of $12,820) was recorded as goodwill, which is being amortized over 20 years.

13. Trade Accounts Payable

Trade payables mainly represent current payables to various suppliers for goods and services.

14. Taxes Payable

Taxes payable consisted of the following as of December 31, 2003:

Sales tax	$	1,168
Income tax		896
Property tax		270
Other taxes		63
Total taxes payable	**$**	**2,397**

15. Other Non-Current Assets and Other Current Liabilities

Other non-current assets primarily consist of long-term rent deposits for land and buildings.

Other current liabilities include advances from franchisees in the amount of $408 and other miscellaneous payables.

16. Registered Capital

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

In October 2003, ZAO "Yukos-M" sold its interest to LLC "Aktiv-Holding" (16.5%), ZAO "Kalina" (16.5%), ZAO "Korall" (16.5%) and LLC "Kopeyka Development" (1%), a wholly owned subsidiary of the Company. Subsequently, the Company registered a reduction of its authorized capital for the amount of interest purchased by LLC "Kopeyka Development". The difference between nominal value of this interest ($897) and amount paid by LLC "Kopeyka Development" to ZAO "Yukos-M" ($1,179) was charged to equity.

Accordingly, as of December 31, 2003 the authorized capital amounted to $92,521 (2,725,146 thousand rubles) and was distributed as follows: $15,420 (16⅔%) – LLC "Aktiv-Holding"; $15,420 (16⅔%) –ZAO "Kalina"; $15,420 (16⅔%) – ZAO "Korall"; $27,757 (30%) – A. V. Samonov; $9,252 (10%) – S. A. Lomakin; $9,252 (10%) – A. K. Khachatryan.

17. Dividends Paid

In September 2003, the Company declared and paid dividends to its participants in the amount of $1,481.

18. Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2003 was comprised of the following:

Goods for resale - retail sales	$	161,537
Goods for resale - wholesale sales		13,451
Total cost good sold	**$**	**174,988**

19. Other Revenues

Other revenues for the year ended December 31, 2003 was comprised of the following:

Marketing services	$	2,944
Rent		562
Repair services		519
Other		159
Total other revenues	**$**	**4,184**

20. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2003 were comprised of the following:

Personnel	$	12,171
Depreciation and amortization		4,832
Rent		4,113
Shortage of goods		2,888
Marketing and advertising		2,237
Repair and maintenance		2,640
Warehouse		730
Materials and supplies		1,236
Taxes other than income tax		921
Commissions		641
Utilities		593
Communication costs		345
Bank charges		314
Audit, consulting and legal fees		276
Transportation		262
Insurance		216
Security		213
Other		789
Total selling, general and administrative expenses	**$**	**35,417**

21. Financial Income

Financial income and expenses for the year ended December 31, 2003 was comprised as follows:

Interest income	$	693
Interest expense		(61)
Total finance income, net	**$**	**632**

22. Income Taxes

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

Current income tax expense	$	1,967
Deferred income tax expense		567
Total income tax expense	**$**	**2,534**

22. Income Taxes (continued)

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

Tax expense computed on income before taxes at the statutory tax rate of 24%	$	1,829
Tax effect of permanent differences:		–
Amortization of goodwill		373
Other non-deductible expenses		332
Income tax expense	**$**	**2,534**

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

Temporary differences resulting in deferred tax asset:		
Difference in valuation of goods for resale	$	87
Difference in valuation of accounts receivable		19
Total deferred tax asset		**106**
Temporary differences resulting in deferred tax liability:		–
Property, plant and equipment valuation		2,320
Intangible assets valuation		80
Total deferred tax liability		**2,400**
Net deferred tax liability	**$**	**2,294**

Deferred income taxes have not been provided for the undistributed profits of the Company's subsidiaries as management does not intend to receive dividends from or dispose of the subsidiaries in the foreseeable future. It is not practicable to estimate the amount of tax that might be provided on the eventual remittance of such earnings or disposition of investments, if any.

23. Related Party Transactions

During the year, the Group companies entered into transactions with related parties who are not members of the Group. These transactions along with related balances as at December 31, 2003 and for the year then ended are presented in the following table and the notes below.

		Amounts due from (to)
LLC "TD Rabin"	$	115
ZAO Chop "Goodwill-Grant"	$	(27)
LLC "Strek"	$	(1)
ZAO "Kofeinaya fabrika "Select"	$	(158)

23. Related Party Transactions (continued)

LLC “Torgovy Dom “Ryabina” operates a retail food store in the Moscow region under the franchise agreement. Owners of LLC “Torgovy Dom “Ryabina” transferred their ownership interests into a trust management to the Company who is acting as a trustee. Receivable balance of $115 relates to repair works performed by the Group at the respective store.

LLC “Chop Goodwill-Garant”, LLC “Streak” and ZAO “Kofeinaya fabrika “Select” are the companies affiliated with the Company’s participants. The 2003 activities with these companies include receiving of rent, security and other services necessary for day-to-day business activities.

In 2003, LLC “Chop Goodwill-Garant” provided security services to the Group for $236 in total.

Payable to LLC “Strek” represents outstanding payments for construction services provided to the Group in 2003 for $1,295 in total.

In 2003, LLC “Kofeinaya fabrika “Select” provided the Group with retail floor space for rent in the amount of $429. Part of rented properties was subsequently acquired by the Group for $577.

24. Commitments and Contingencies

General Contingencies

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government’s continued actions with regard to supervisory, legal, and economic reforms.

Taxation

During 2002, the Russian Federation enacted a new tax code with significant modifications from the prior law. Due to the lack of time and examination of findings by tax authorities it is unknown how many aspects of the new tax code will be interpreted. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities, the Central Bank and Ministry of Finance. Instances of inconsistent opinions are not unusual.

The Group believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes was unclear, the Group has accrued tax liabilities based on management’s best estimate. The Group’s policy is to accrue for contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of December 31, 2003.

24. Commitments and Contingencies (continued)

Taxation (continued)

The management's estimate of the amount of potential liabilities including fines that could be incurred in case the tax authorities disagree with the Group's position on certain tax matters is approximately $4,384. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability. Therefore, no provision for these contingencies was recorded in the accompanying financial statements.

In July 2004, Resolution No. 169-O of the Constitutional Court of the Russian Federation dated April 8, 2004 has become publicly available. The resolution has the possible effect of deferring the timing in which companies are able to offset input VAT to the extent the creation of such VAT is deemed to be attributable to the utilization of borrowed funds. In the event the tax authorities would assert and successfully defend such an interpretation in arbitration courts, the result could have a material adverse impact on the Group's financial condition. As of the date of this report, management is unable to predict the outcome of this uncertainty.

Purchase and Lease Commitments

In December 2002, the Group entered into a contract with LLC "Franc Informatics Technologies" for purchase of store fittings. The amount not yet ordered under this contract as of December 31, 2003, was $2,937. The equipment is ordered where and when required.

As of December 31, 2003, the Group had a number of outstanding cancelable and non-cancelable long-term lease contracts priced in US dollars (USD) with lease terms varying from three to 15 years. The rent is paid when incurred on a monthly basis. Future minimum rentals payable under the non-cancelable operating leases were as follows as at December 31, 2003

Within one year	$	974
After one year but not more than five years	$	4 603
More than five years	$	2 171

25. Subsequent Events

In April 2004 the Group obtained $10 million loan from AKB "Kazkommertzbank" for the acquisition and reconstruction of a retail property at 11.25% annual interest. The loan, which matures on May 14, 2005, was secured by the Group's trade equipment in full.

In September 2004, the Group borrowed $5 million from AKB "Moscovskiy Delovoi Mir". The loan matures on November 18, 2004 and bears 12% annual interest.

In September 2004, the Group entered into a loan agreement with DrezdnerBank AG for $40 million. The loan bears 12% annual interest and matures on April 3, 2006. The loan was funded by credit-linked notes issued by DrezdnerBank AG to a group of investors who are granted a put option on the notes that can be exercised in one year from the date of issuance.