JV Closed Joint Stock Company MILAVITSA

PARENT AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2005

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Management report

General information on the Group

JV Closed Joint Stock Company MILAVITSA (the "Parent") was established on 19 March 1992 by reorganization of the state owned Minsk sewing factory MILAVITSA into a closed joint stock company. On 28 April 2000 the Parent was reregistered and incorporated in the Republic of Belarus in accordance with the decision Nr.159. The participation of the foreign shareholding in the Parent is 31.14%.

As of 31 December 2003 the Parent had 8 branches (7 retail trade stores and a canteen) and one subsidiary, CJSC Jimil, in the Republic of Belarus, as well as a representative office in Moscow (Russian Federation). In the second half of 2004 the Parent disposed of its trade branches and closed its representative office in Moscow; at the same time the Parent set up two subsidiaries, Milavitsa Trading Company Ltd. (Republic of Belarus) and CJST Metropolitan Trade Company Milavitsa (Russian Federation).

The Parent's and its subsidiaries (the "Group") main activities are production and sale of women's underwear. The registered address of the Company is: 28, Novovilenskaia Street, Minsk, 220053 Republic of Belarus.

The operations are carried out in line with ISO 9000 quality standards and are based on ISO 14000 environmental standards.

Strategy of operations

The Group strategic goals include:

- Maintaining of leading positions in the production and sales of women's underwear in the core markets – Belarus, Russia, Ukraine and Kazakhstan;
- Reducing the cost of goods sold in order to maintain Group market competitiveness in the long term;
- Promotion and development of Milavitsa trademark, development and expansion of distribution channels;
- Development of women's underwear and associated goods' retail sales networks oriented towards middle and upper middle price segment for various age groups in Belarus, Russia, Ukraine and Kazakhstan.
- Implementation of new formats of retail sales in the existing markets and continuous monitoring of retail demand.

Types of activities

Key business lines of the Group include:

- Development and production of corset products, bathing suits and other consumer goods;
- Services of corset products sewing from provided raw materials;
- Retail and wholesale trading of industrial and food products.

Assessment of financial operations

The assessment of the financial results for 2005 indicates maintainable stable financial position of the Group:

- Sales volumes exceed planned level by 7.2%;
- Profitability of goods sold exceeds plan by 5%;
- Parent profit for 2005 is BYR 8 558 million, which exceeds 2004 result by 43%, while consolidated result for 2005 of BYR 11 654 million is 113% above the consolidated profit of 2004;
- The basic earnings per share of the Parent amount to BYR 0.695 million in 2005, while the consolidated earnings per share amount to BYR 0.946 million.

Subsequent events

No significant subsequent events have occurred that would materially impact the financial statement presentation. Based on the decision of the extraordinary shareholders' meeting, the increase of the share capital was authorised in the amount of BYR 2 667 million up to BYR 14 987 million through the capitalisation of statutory reserves. Therefore, the new nominal value of the share comprises BYR 1 216 500.

Future perspective and further development - Balanced scorecard for 2006

Marketing and sales

- Maintaining of customer loyalty and sustaining stable position of the Group on the market;
- Continuation of the Group products' repositioning policy;
- Assortment management;
- Increase in sales volumes.

Product development

- Development and introduction to production of 294 new models (77% renewal of the collections, including Milavitsa, Aveline and Alisee trademarks);
- Continuation of the cooperation with independent European designers on the development of Alisee collection, bathing suits and other products;
- Optimization of the number of models in Milavitsa product portfolio in order to ensure its higher management potential in 2007;
- Efforts on product cycle reduction from the model development phase till the inception of sales phase.

Procurement

- Maximal synchronization of raw materials delivery and the use in the production process in order to maintain the optimal raw materials' levels and to avoid the formation slack raw materials not used in operations;
- Reducing costs:
  - as a result of bonus schemes and the reduction of raw materials' prices – by EUR 80 thousand;
  - as a result of delivery cost reduction – by EUR 30 thousand.
- Ensure the growth of the value of imports by not more than 108% in comparison to 2005.

Production

- Ensure timely preparation and marketing department order fulfillment in the amount of not less than 14 100 thousand units. Ensure growth in production volumes of 110.1%;
- Follow the key Group policies in relation to sewing services provision – fulfill JSC Lauma orders n the volume of not less than 250 thousand units;
- Follow the program of the transfer of the key sewing workshops to one shift working regime;
- Increase the production productivity in the core production workshops by not less than 1%;
- Development and introduction of the new technological equipment.

Continuous improvement

- Increase the effectiveness of Balanced Scorecard processes with the focus on the Group strategic goals;
- Realization of continuous improvement programme through the Coordination Council activities.
- Continuation of the balanced scorecard modelling and documentation of associated procedures. Finalization of the project of product development cycle reduction within the framework of continuous improvement.

Human resource management

- Ensure Group management structure corresponds to its business goals;
- Increased management efficiency;
- Optimisation of the number of personnel, partially through the reduction of the headcount by up to 1.6% of the total production staff;
- Ensure the average monthly income of the employees is not less than EUR 265 during the year;
- Formation of the corporate culture and strengthening of the corporate spirit of the employees;
- Increase the average social security contribution per employee up to EUR 621 per person per annum.
- Career development of the employees, also through the investments in the professional development. Increase investments into professional training up to EUR 64 thousand per annum.

Information technologies

- Continue the works on the implementation of corporate management information system on the basis of Axapta ERP;
- Continue the transfer to AccuMark information systems developed by Gerber Technology to automize constructors' and cutters' working places;

Financial management

- Ensure the fulfillment of the key financial goals for 2006:
  - Profits - EUR 4672 thousand
  - Operating profitability 18,5%.
  - Turnover of current assets of not more than 155 days
- Optimization of financial flows and equity structure;
- Strengthening of financial stability.

Dmitry A. Ditchkovsky
General Director

20 March 2006

Board of the Parent company (as at 31 December 2005)

Dmitry A. Ditchkovsky	General Director
Sergey J. Kusonsky	Deputy General Director
Irina P. Kompanenko	Technical Director
Andrey B. Glybin	Corporate Development Director
Taisija J. Moukha	Chief Accountant
Igor V. Babok	Information and Legal Operations Director

No changes in the board of the parent company have taken place from 1 January 2005 to March 2006.

Dmitry A. Ditchkovsky
General Director

20 March 2006

Auditor's report

Consolidated income statement

For year ended 31 December 2005

		Consolidated financial statements		Parent company's financial statements	
in millions of BYR	Note	**2005**	**2004 (unaudited)**	**2005**	**2004**
Revenue	4	136 269	117 714	123 060	118 342
Cost of sales	5	(96 720)	(85 780)	(90 254)	(86 104)
Gross profit		**39 549**	**31 934**	**32 806**	**32 238**
Other operating income		556	454	310	446
Distribution expenses	6	(4 933)	(3 322)	(2 681)	(3 253)
Administrative expenses	7	(9 251)	(8 144)	(9 251)	(8 144)
Other operating expenses		(4 164)	(4 422)	(3 612)	(4 406)
Operating profit before financing costs		**21 757**	**16 500**	**17 572**	**16 881**
Financial income	8	703	333	636	333
Financial expenses		(387)	(313)	(387)	(313)
Net financing costs		**316**	**20**	**249**	**20**
Loss on net monetary position		**(3 123)**	**(4 668)**	**(3 207)**	**(4 668)**
Profit before tax		**18 950**	**11 852**	**14 614**	**12 233**
Income tax expense	9	(7 296)	(6 658)	(6 056)	(6 547)
Profit after tax but before gain on					

Consolidated statement of cash flows

For year ended 31 December 2005

in millions of BYR	Note	Consolidated financial statements 2005	Consolidated financial statements 2004 (unaudited)	Parent company's financial statements 2005	Parent company's financial statements 2004 (restated)
Operating activities					
Profit before income tax and loss on net monetary position		22 073	16 798	17 821	17 179
Adjustments for:					
Depreciation and amortisation		3 781	2 982	3 665	2 303
Impairment of construction in progress		-	138	-	138
Impairment of investments		-	191	-	191
Increase in/(recovery of) allowance for doubtful accounts receivable		6	(23)	6	450
Increase in/(recovery of) provisions for inventories		(354)	479	(354)	479
(Gain)/Loss on disposal of property, plant and equipment		(46)	443	(46)	443
Gain on discontinued operation		-	(366)	-	(366)
Interest income		(578)	(279)	(511)	(279)
Dividend income		(115)	(53)	(115)	(53)
Interest expense, net		387	31	387	31
Operating cash flow before movements in working capital		**25 154**	**20 341**	**20 853**	**20 516**
Movements in working capital:					
(Increase)/decrease in inventories		5 291	1 572	5 705	(2 947)
Increase in trade accounts receivable		(1 977)	(2 555)	(4 784)	(2 403)
(Increase)/decrease in other acounts receivable		(2 648)	(3 831)	(1 176)	4 598
Decrease in trade accounts payable		(1 281)	(686)	(1 587)	(916)
Increase/(decrease) in other accounts payable		697	(234)	154	(1 526)
Increase/(decrease) in provisions		316	915	316	(828)
Cash flow from operating activities		**25 552**	**15 522**	**19 481**	**16 494**
Income taxes paid		(7 572)	(6 471)	(6 505)	(6 159)
Interest paid		(387)	(31)	(387)	(31)
Net cash provided by/ used in operating activities		**17 582**	**9 020**	**12 589**	**10 304**

The accompanying notes on pages 15 to 36 form an integral part of these financial statements

		Consolidated financial statements		Parent company's financial statements	
in millions of BYR	**Note**	**2005**	**2004**	**2005**	**2004**
Investing activities					
Purchase of property, plant and equipment		(1 964)	(1 728)	(1 715)	(3 942)
Purchase of intangible assets		(254)	-	(254)	-
Purchase of securities held to maturity		(2 266)	-	-	-
Purchase of other non-current assets		-	(176)	-	(176)
Investment in subsidiaries		-	-	-	(287)
Proceeds from repayment of loans		60	-	60	-
Proceeds from sale of property, plant and equipment		295	41	286	41
Purchases of own shares		(90)	-	(90)	-
Interest received		511	278	511	278
Dividends received		115	53	115	53
Net cash used in investing activities		**(3 593)**	**(1 532)**	**(1 087)**	**(4 033)**
Financing activities					
Repayment of obligations under finance lease		(1 032)	(429)	(1 032)	(429)
Dividends paid		(1 536)	(1 521)	(1 487)	(1 521)
Net cash used in financing activities		**(2 568)**	**(1 950)**	**(2 519)**	**(1 949)**
Net increase in cash and cash equivalents		11 432	5 538	8 983	4 322
Cash and cash equivalents, beginning of the period		6 181	5 500	5 500	5 630
Effects of net loss on monetary position		(3 123)	(4 857)	(3 207)	(4 452)
Cash and cash equivalents, end of the period	17	**14 490**	**6 181**	**11 276**	**5 500**

The accompanying notes on pages 15 to 36 form an integral part of these financial statements

Dmitry A. Ditchkovsky
General Director

20 March 2006

Consolidated statement of changes in shareholders' equity

For year ended 31 December 2005

in millions of BYR	Note	Share capital	Share premium	Treasury shares	Translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance at 1 January 2004		15 668	5 473	-	-	28 296	49 437	-	49 437
Effect of consolidation of subsidiaries (unaudited)		-	-	-	-	310	310	54	364
Profit for the year (unaudited)		-	-	-	-	5 243	5 243	229	5 472
Dividends to shareholders (unaudited)		-	-	-	-	(1 521)	(1 521)	-	(1 521)
Balance at 31 December 2004 (unaudited)		**15 668**	**5 473**	-	-	**32 328**	**53 469**	**283**	**53 752**
Effect of correction of fundamental error	14, 22	-	-	-	-	(2 310)	(2 310)	-	(2 310)
Balance at 1 January 2005 (unaudited, restated)		**15 668**	**5 473**	-	-	**30 018**	**51 159**	**283**	**51 442**
Profit for the year		-	-	-	-	11 236	11 236	418	11 654
Treasury shares purchased		-	-	(90)	-	-	(90)	-	(90)
Capitalisation of statutory reserves		10 472	-	(1)	-	(10 471)	-	-	-
Effect of consolidation of foreign subsidiaries		-	-	-	(35)	-	(35)	-	(35)
Dividends to shareholders		-	-	-	-	(1 525)	(1 525)	-	(1 525)
Balance at 31 December 2005		**26 140**	**5 473**	**(91)**	**(35)**	**29 258**	**60 745**	**701**	**61 446**

The accompanying notes on pages 15 to 36 form an integral part of these financial statements

Dmitry A. Ditchkovsky
General Director

20 March 2006

Statement of changes in shareholders' equity, Parent

For year ended 31 December 2005

in millions of BYR	Note	Share capital	Share premium	Treasury shares	Retained earnings	Total
Balance at 1 January 2004		15 668	5 473	-	28 295	49 436
Profit for the year		-	-	-	5 964	5 964
Dividends to shareholders		-	-	-	(1 521)	(1 521)
Balance at 31 December 2004		**15 668**	**5 473**	-	**32 738**	**53 879**
Effect of correction of fundamental error	14, 22	-	-	-	(2 310)	(2 310)
Balance at 1 January 2005 (restated)		**15 668**	**5 473**	-	**30 428**	**51 569**
Total recognised income and expense		-	-	-	8 558	8 558
Treasury shares purchased		-	-	(90)	-	(90)
Capitalisation of statutory reserves		10 472	-	(1)	(10 471)	-
Dividends to shareholders		-	-	-	(1 487)	(1 487)
Balance at 31 December 2005		**26 140**	**5 473**	**(91)**	**27 028**	**58 550**

The accompanying notes on pages 15 to 36 form an integral part of these financial statements

Dmitry A. Ditchkovsky
General Director
20 March 2006

Notes to financial statements

1 Nature of the business

JV Closed Joint Stock Company MILAVITSA (the "Parent") was established on 19 March 1992 by reorganization of the state owned Minsk sewing factory MILAVITSA into a closed joint stock company. On 28 April 2000 the Company was reregistered and incorporated in the Republic of Belarus as a joint venture closed Joint Stock Company when a foreign investor, "Iluna Group SPA", Italy, purchased its shares.

The Company's and its subsidiaries (the "Group") main activities are production and sale of women's underwear. The registered address of the Company is: 28, Novovilenskaia Street, Minsk, 220053 Republic of Belarus.

As of 31 December 2003 the Parent had 8 branches (7 retail trade stores and a canteen) and one subsidiary, CJSC Jimil, in the Republic of Belarus, as well as a representative office in Moscow (Russian Federation). In the second half of 2004 the Parent disposed of its trade branches and closed its representative office in Moscow; at the same time the Parent set up two subsidiaries, Milavitsa Trading Company Ltd. (Republic of Belarus) and CJST Metropolitan Trade Company Milavitsa (Russian Federation).

The number of employees of the Parent as of 31 December 2005 and 31 December 2004 was 1,946 and 1,940, respectively. The number of employees of the Group as of 31 December 2005 and 31 December 2004 was 2,121 and 2,113, respectively.

These consolidated and parent financial statements were authorized for issue by management of the Company on 20 March 2006.

2 Presentation of financial statements

a) Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company and its subsidiaries maintain its accounting records in Belarusian and Russian Roubles as applicable in accordance with the accounting and reporting regulations of the country of incorporation of the companies of the Group. The consolidated financial statements, which have been prepared from the Group's statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for property, plant and equipment, equity, non-monetary assets and liabilities and the income statement of Group companies, registered in the Republic of Belarus, which are recorded at their historical cost adjusted for hyperinflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"), and except for financial instruments, which are recorded in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), as described further in Note 3.

b) Use of estimates and assumptions

The preparation of parent and consolidated financial statements 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.

c) Measurement and presentation currencies

The measurement currency of the companies incorporated in the Republic of Belarus is the Belarusian Rouble ("BYR"). Amounts stated in Belarusian Roubles are adjusted for hyperinflation. The measurement currency of Russian subsidiary of the Company is the Russian Rouble ("RUR") and restated in the consolidated financial statements into Belarusian Roubles.

3 Summary of significant accounting policies

a) Adoption of new and revised International Financial Reporting Standards

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following area that, however, did not however affect the amounts reported in prior years:

The Group adopted the provisions of IAS No. 1 (Revised) "Presentation of Financial Statements" and presented net profit attributable to minority shareholders separately from net profit attributable to the equity holders of the Company. Similar presentation has been adopted for the consolidated statements of changes in equity and consolidated balance sheets, where minority interest is represented within equity.

b) Basis for 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The Company's subsidiaries as of 31 December 2005 and 31 December 2004 are as follows:

	Place of incorporation and operation	Proportion of ownership interest	Principal activity
JV Milavitsa Trading Company Ltd, Minsk	Republic of Belarus	51%	Trade
CJST Metropolitan Trade Company Milavitsa, Moscow	Russian Federation	100%	Trade
CJSC Jimil, Minsk	Republic of Belarus	52%	Manufacturing

Investments in associates

An associate is an enterprise over which the Company is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee but does not directly or indirectly exercise control. Investments in associates are recorded at cost adjusted in accordance with IAS 29, less provision for impairment, if occurred. The impact of the accounting for investments in associates under the equity method is not material.

c) **Hyperinflationary accounting**

The Republic of Belarus has experienced high levels of inflation in previous years. In accordance with IAS 29 these consolidated financial statements have been adjusted to reflect the effects of the diminution of the purchasing power of the Belarusian Rouble. The change of rates of Consumer Price Index ("CPI") during the last five consecutive periods was as follows:

Year	**% change**
2005	8.0%
2004	14.4%
2003	25.4%
2002	34.8%
2001	46.2%

All figures in these consolidated financial statements, if not otherwise indicated, have been restated and presented in the measuring unit current as of 31 December 2005. Monetary assets and liabilities as of 31 December 2005 have not been restated, as they are already expressed in the monetary unit current as of 31 December 2005. Non-monetary assets and liabilities have been restated by applying the appropriate index. The effect of hyperinflation on the Group's net monetary position is reflected in the consolidated income statement as a gain or loss on net monetary position.

Comparative consolidated balance sheet figures as of 31 December 2004 have been restated by applying the change in the index to 31 December 2005. Consolidated income statement transactions have been restated by applying the change in the index from the approximate date of the transactions to 31 December 2005.

Effective 1 January 2006 the Republic of Belarus has been removed from the list of hyperinflationary economies given the recent sustainable improvement of inflation rates (47.8% cumulative inflation over the past three years) and general strengthening of the economic conditions.

d) **Foreign currency transactions**

Transactions in currencies other than Belarusian Rouble are initially recorded at the official exchange rates of the National Bank of the Republic of Belarus prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All translation gains and losses are included in the consolidated income statement.

Exchange rates as of 31 December 2005 and 31 December 2004 were as follows:

	31 December 2005	**31 December 2004**
BYR/USD	2,152.00	2,170.00
BYR/EUR	2,546.35	2,955.65
BYR/RUR	74.86	77.91

e) **Recognition and measurement of financial instruments**

The Group recognizes financial assets and liabilities on its consolidated balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value being the consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

f) Property, plant and equipment

Property, plant and equipment is stated at cost adjusted for IAS 29.

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 the consolidated income statement as incurred.

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 consolidated income statement. Depreciation methods, useful lives are residual values are assessed annually.

(i) Depreciation

Deprecation is computed under the straight-line method utilizing useful lives of the assets, which are:

	2005	2004
Buildings	50-75 years	40 years
Infrastructure fixed assets	10-40 years	10 years
Machinery and equipment	5-10 years	10-20 years
Office equipment and other assets	5-10 years	3-10 years

Applicable depreciation rates were changed in 2005 prospectively to reflect the estimated outstanding useful lives of property, plant and equipment.

(ii) Construction in progress

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, plant and equipment, 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.

(iii) Impairment of property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any 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.

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 in the period they arose in the consolidated income statement.

*(iv) **Finance leases***

Leases that transfer substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

Group as a lessee under financial lease

The Group recognizes finance leases as assets and liabilities in the consolidated balance sheet at the inception of the lease at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine, otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Capital costs incurred to maintain or improve assets received under finance leases are capitalized and reported as leasehold improvements and are amortized over the term of the related lease.

*(v) **Operating leases***

Lease of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

Group as a lessee under operating lease

Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into operating expenses.

Group as a lessor under operating lease

The Group presents in the consolidated balance sheet assets subject to operating leases according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognized as an expense in the consolidated income statement in the period in which they are incurred.

(g) Investments

In accordance with IAS 39 investments are classified into the following categories: financial asset or financial liability at fair value through profit or loss (including held for trading investments), held-to-maturity, available for sale and loans and receivables originated by the Group. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments are classified as available for sale.

Available for sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at fair value being the consideration given for them, including transaction costs. Estimation of the fair values of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" ("IAS 32") and IAS 39. As no readily available market exists for a significant part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment.

(h) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost comprises direct materials, customs duties, transportation and handling costs. Cost is calculated using FIFO method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(i) Accounts receivable

Accounts receivable are stated at their amortized cost after deducting allowance for estimated irrecoverable amounts.

(j) 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.

(k) Share capital and share premium

Share capital and share premium are recognized at cost restated for hyperinflation. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at cost restated for hyperinflation. Gains and losses on sale of treasury stock are charged or credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

(l) Bank loans

All loans are initially recorded at the proceeds received, net of direct issue costs. After initial recognition loans are subsequently measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

(m) Trade and other payables

Liabilities for trade and other amounts payable are stated at their nominal value.

(n) Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

(o) Revenue recognition

Revenue is accounted net of turnover taxes and is recognized when ownership rights and all risks and rewards of ownership are transferred to the buyer. Revenue is recognized in the consolidated income statement in periods to which it relates.

(p) Value added tax recoverable

Value added tax ("VAT") recoverable represents input VAT on purchases of property, plant and equipment, inventories, services and works. Recoverable part of the VAT is netted off against liabilities on VAT output on revenues and against VAT payable to tax authorities. Recoverable, but not paid input VAT is not netted off with VAT liability until incoming VAT is repaid.

(q) Income taxes

Income taxes have been computed in accordance with the laws of the country of incorporation of the companies of the Group. They are based on the results for the year adjusted for non-taxable income and non-deductible expenses.

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 consolidated 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 consolidated income statement.

(r) Contingencies

Contingent liabilities are disclosed in the consolidated financial statements.

(s) Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 31 December 2004 to conform to the presentation as of 31 December 2005.

4. Revenue

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Corset products and similar	132 220	111 370	119 011	111 998
Sewing and other services	3 284	5 497	3 284	5 497
Other	765	847	765	847
Total	**136 269**	**117 714**	**123 060**	**118 342**

5. Cost of sales

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Raw materials	65 476	60 029	61 440	61 411
Payroll expenses	18 171	16 343	17 163	15 558
Services	9 371	7 002	8 211	6 881
Depreciation and amortization	3 372	2 361	3 242	2 228
Other	330	45	198	26
Total	**96 720**	**85 780**	**90 254**	**86 104**

6. Distribution expenses

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Advertising expenses	2 713	2 156	1 733	2 156
Packaging materials	365	230	365	230
Transportation services	177	132	114	132
Marketing expenses	1 104	104	199	104
Bad debt expenses	53	450	53	450
Other expenses	521	250	217	181
	4 933	**3 322**	**2 681**	**3 253**

7. Administrative expenses

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Payroll expenses	7 767	6 974	7 767	6 974
Materials	95	67	95	67
Services	597	668	597	668
Depreciation and amortization	69	63	69	63
Taxes, other than income taxes	103	193	103	193
Utilities	103	62	103	62
Other expenses	517	117	517	117
	9 251	**8 144**	**9 251**	**8 144**

8. Financial income

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Interest income	578	280	511	280
Dividend income	115	53	115	53
Other income	10	-	10	-
	703	**333**	**636**	**333**

9. Income taxes

The Group provides for taxes based on statutory tax accounts maintained and prepared in accordance with statutory tax regulations of the country of incorporation of the Group company.

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Current income tax expense – continuing operations	7 296	6 510	6 056	6 547
Current income tax expense – discontinued operations	-	148	-	148
Total income tax expense	**7 296**	**6 658**	**6 056**	**6 695**

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. Temporary differences as of 31 December 2005 and 31 December 2004 relate mostly to the different recorded values of certain assets.

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

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Deductible temporary differences				
Intangible assets	1 796	2 587	1 796	2 587
Allowance for doubtful debts	138	586	138	586
Property, plant and equipment	245	1 027	199	1 027
Inventories	658	163	658	163
Total deductible temporary differences	**2 837**	**4 363**	**2 791**	**4 363**
Taxable temporary differences				
Investments	-	(76)	-	(76)
Total taxable temporary differences	-	(76)	-	(76)
Net deductible temporary differences	**2 837**	**4 287**	**2 791**	**4 287**

Deferred tax asset at the statutory effective tax rate (28% for 2005 and 27.04% for 2004)	794	1 159	781	1 159
Less: valuation difference	(794)	(1 159)	(781)	(1 159)
Net deferred tax asset	-	-	-	-

Deferred tax asset is 100% provided for due to prudence principle.

Relationships between tax expenses and accounting profit:

in millions of BYR	**Consolidated financial statements**		**Parent company's financial statements**	
	2005	**2004 (unaudited)**	**2005**	**2004**
Profit before income taxes – continuing operations	18 950	11 852	14 614	12 233
Profit before income taxes – discontinued operations	-	425	-	425
	18 950	**12 277**	**14 614**	**12 658**
Theoretical income taxes at statutory rate (2005: 28%, 2004: 27.04%)	5 306	3 320	4 092	3 423
Effect of permanent differences	1 727	3 088	1 586	3 032
Write-off of deferred tax asset	384	330	378	336
Effect of change in tax rate	-	(96)	-	(96)
Effect of tax rates in foreign jurisdictions	(121)	16	-	-
Total income tax expense	7 296	6 658	6 056	6 695

10. Gain on discontinued operation

On 21 July 2004 the shareholders of the Parent elected to set up a subsidiary company JV Milavitsa Trading Company Ltd, Minsk, where 51% belongs to the Company. Following the registration of the subsidiary the Parent disposed of all its retail trade stores situated in Minsk and other major cities of Belarus to the subsidiary. The disposal was completed in December 2004.

The gain on discontinued operations of retail trade stores net of tax for the reporting period was as follows:

in millions of BYR	**2004 (unaudited)**
Loss of retail shops operations	(88)
Gain on disposal of retail shop operations	366
	278

11. Property, plant and equipment, net, Group

in millions of BYR	Buildings	Plant and equipment	Fixed assets	Under construction	Total
Cost					
Balance at 31 December 2003	**9 631**	**22 604**	**5 435**	**268**	**37 938**
Additions (unaudited)	-	5 086	814	138	6 038
Internal transfer (unaudited)	-	1 072	(1 072)	-	-
Impairment loss (unaudited)	-	-	-	(138)	(138)
Disposals (unaudited)	-	(1 245)	(746)	(71)	(2 062)
At 31 December 2004 (unaudited)	9 631	**27 517**	**4 068**	**197**	**41 776**
Balance at 1 January 2005 (unaudited)	9 631	27 517	4 431	197	41 776
Additions	60	2 587	711	150	3 508
Internal transfer	-	-	119	(119)	-
Disposals	(36)	(1 773)	(274)	-	(2 083)
At 31 December 2005	**9 655**	**28 331**	**4 987**	**228**	**43 201**
Accumulated depreciation					
At 31 December 2003 (unaudited)	**3 276**	**11 838**	**3 337**	-	**18 451**
Charge for the period (unaudited)	376	2 046	559	-	2 981
Internal transfer (unaudited)	-	901	(901)	-	-
Disposals (unaudited)	-	(852)	(456)	-	(1 308)
At 31 December 2004 (unaudited)	**3 652**	**13 933**	**2 539**	-	**20 124**
At 1 January 2005 (unaudited)	3 652	13 933	2 539	-	20 124
Charge for the year (unaudited)	151	2 959	670	-	3 780
Disposals (unaudited)	(2)	(1 617)	(215)	-	(1 834)
At 31 December 2005	**3 801**	**15 275**	**2 994**	-	**22 070**
Net Book Value					
At 31 December 2003 (unaudited)	**6 355**	**10 766**	**2 098**	**268**	**19 487**
At 31 December 2004 (unaudited)	**5 979**	**13 584**	**1 892**	**197**	**21 652**
At 31 December 2005	**5 854**	**13 056**	**1 993**	**228**	**21 131**

Property, plant and equipment, net, Parent

in millions of BYR	Buildings	Plant and equipment	Fixed assets	Under construction	Total
Cost					
Balance at 31 December 2003	**9 631**	**22 604**	**5 132**	**268**	**37 635**
Additions	-	4 675	754	19	5 448
Internal transfer	-	1 072	(1 072)	-	-
Impairment loss	-	-	-	(138)	(138)
Disposals	-	(1 245)	(746)	(71)	(2 062)
At 31 December 2004	**9 631**	**27 106**	**4 068**	**78**	**40 883**
Balance at 1 January 2005	9 631	27 106	4 068	78	40 883
Additions	53	2 433	623	150	3 259
Disposals	(36)	(1 773)	(260)	-	(2 069)
At 31 December 2005	**9 648**	**27 766**	**4 431**	**228**	**42 073**
Accumulated depreciation					
At 31 December 2003	**3 276**	**11 838**	**3 337**	-	**18 451**
Charge for the period	376	2 046	559	-	2 981
Internal transfer	-	901	(901)	-	-
Disposals	-	(852)	(456)	-	(1 308)
At 31 December 2004	3 652	13 933	2 539	-	20 124
Balance at 1 January 2005	3 652	13 933	2 539	-	20 124
Charge for the period	151	2 879	634	-	3 664
Disposals	(2)	(1 617)	(210)	-	(1 829)
At 31 December 2005	**3 801**	**15 195**	**2 963**	-	**21 959**
Net Book Value					
At 31 December 2003 (unaudited)	**6 355**	**10 766**	1 795	**268**	**19 184**
At 31 December 2004 (unaudited)	**5 979**	**13 173**	**1 529**	**78**	**20 759**
At 31 December 2005	**5 847**	**12 571**	**1 468**	**228**	**20 114**

The carrying amount of the Group's property, plant and equipment included an amount of BYR 2,279 million and BYR 1,559 million in respect of assets held under finance leases as of 31 December 2005 and 31 December 2004, respectively.

12. Intangible assets, net,

in millions of BYR	Consolidated financial statements	Parent company's financial statements
Cost		
Balance at 31 December 2004 (unaudited)	563	560
Additions	254	254
At 31 December 2005	**817**	**814**
Accumulated amortization		
At 31 December 2004 (unaudited)	3	3
Charge for the year	1	1
At 31 December 2005	4	4
Net Book Value		
At 31 December 2004 (unaudited)	560	557
At 31 December 2005	813	810

Intangible assets are mainly comprised of the costs of development of management information system Axapta ERP, which is expected to be put in use by the end of 2006. Capitalized costs constituted BYR 799 million and BYR 545 million as of 31 December 2005 and 31 December 2004 respectively.

13. Investments

Details of the Group's subsidiaries included in consolidation:

in millions of BYR	Consolidated financial statements 2005	Consolidated financial statements 2004 (unaudited)	Parent company's financial statements 2005	Parent company's financial statements 2004 (restated)
JV Milavitsa Trading Company Ltd, Minsk	-	-	54	54
CJST Metropolitan Trade Company Milavitsa, Moscow	-	-	210	210
CJSC Jimil, Minsk	-	-	1	1
	-	-	265	265

	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
JV Milavitsa Trading Company Ltd, Minsk	Belarus	51%	51%	Trade
CJST Metropolitan Trade Company Milavitsa, Moscow	Russian Federation	100%	100%	Trade
CJSC Jimil, Minsk	Belarus	52%	52%	Manufacturing

Details of the Group's associates:

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	**2004 (unaudited)**	**2005**	**2004 (restated)**
Debt securities held-to-maturity				
CJSC Bank Globex, Russian Federation, treasury bill	2 322	-	-	-
Equity securities available-for-sale				
OJSC Belvnesheconombank, Minsk, Republic of Belarus	39	39	39	39
CJSC Minsk Transit Bank, Minsk, Republic of Belarus	41	41	41	41
Gratsiya Ltd, Minsk, Republic of Belarus	12	12	12	12
Other investments	12	7	-	-
Investments in associates	6	-	-	-
	2 432	**99**	**92**	**92**

	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Trade house Milavitsa Ltd., Novosibirsk	Russian Federation	25%	25%	Trade
CJSC Trade house Milavitsa, Tjumen	Russian Federation	25%	25%	Trade
CJSC Trade house Milavitsa, Moscow	Russian Federation	25%	25%	Trade
Trade house Milavitsa Ltd., Ufa	Russian Federation	25%	25%	Trade
Trade house Milavitsa Ltd., Kiev	Ukraine	26%	26%	Trade

14. Inventories

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004 (restated)
Raw materials, gross	7 986	9 382	7 660	9 173
Provision for raw materials	(264)	(83)	(264)	(83)
Work in progress, net	4 023	5 334	4 023	5 334
Finished goods, gross, restated	10 069	12 663	7 272	10 163
Provision for finished goods	(394)	(929)	(394)	(929)
Other inventories, net	28	18	28	18
	21 448	**26 385**	**18 325**	**23 676**

At 31 December 2005 and 31 December 2004 finished goods were pledged to secure obligations under finance lease entered into during 2005 and 2004.

Fundamental Error

Consistent with the legislation of Belarus, the Parent included part of administrative costs into the cost of finished goods. However, such costs should be expensed immediately when incurred in accordance with IFRS. As a result of the fundamental error correction, costs of BYR 939 million previously included in finished goods were expensed as at 31 December 2004.

in millions of BYR	**Consolidated financial statements**		**Parent company's financial statements**	
	2005	**2004 (unaudited)**	**2005**	**2004 (restated)**
Finished goods, gross, as previously stated	10 069	13 602	7 272	11 102
Write-off of administrative expenses included in cost of goods	-	(939)	-	(939)
Finished goods, gross, restated	**10 069**	**12 663**	**7 272**	**10 163**

15. Trade accounts receivable, net

in millions of BYR	**Consolidated financial statements**		**Parent company's financial statements**	
	2005	**2004 (unaudited)**	**2005**	**2004 (restated)**
Trade accounts receivable from third parties	6 519	6 451	1 584	6 077
Trade accounts receivable from related parties	3 864	1 990	15 944	6 667
Less: allowance for doubtful trade accounts receivable	(139)	(133)	(139)	(133)
	10 244	**8 308**	**17 389**	**12 611**

16. Other accounts receivable

in millions of BYR	**Consolidated financial statements**		**Parent company's financial statements**	
	2005	**2004 (unaudited)**	**2005**	**2004 (restated)**
Taxes receivable	1 381	291	1 381	291
VAT on unpaid invoices	2 326	1 190	501	406
Advances paid	336	-	-	-
Deferred expenses	265	94	242	94
Receivables for fixed assets sold and services provided	174	346	174	346
Other receivables	503	416	367	352
	4 985	**2 337**	**2 665**	**1 489**

17. Cash and cash equivalents

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004 (restated)
Cash, BYR	136	28	-	17
Banks, BYR and foreign currencies	5 051	1 817	1 972	1 147
Short-term bank deposits, BYR and foreign currencies	9 303	4 336	9 304	4 336
	14 490	**6 181**	**11 276**	**5 500**

18. Shareholders' equity

As of 31 December 2005 and 31 December 2004 total authorized, issued and fully paid share capital of the Company consisted of 12,320 shares (11,088 ordinary shares and 1,232 preference shares). Based on shareholders' decision of 17 March 2005, the share capital of the Parent was increased by means of capitalization of reserves made under statutory legislation in the amount of BYR 10 472 million. As of 31 December 2005 and 31 December 2004 the par value of each share was BYR 1 million (at historical cost) and BYR 192 thousand (at historical cost), respectively.

Each ordinary share carries one vote and preference shares carry no vote. Dividends paid to shareholders are proposed by management based on profit recorded in accordance with the accounting and reporting regulations of the Republic of Belarus. The Company declares dividends quarterly. Interim (quarterly) dividends are declared and approved at the meeting of Supervisory Board. Final (annual) dividends are declared and approved at the annual Shareholders' meeting.

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences:

in millions of BYR	2005	2004
Final dividends proposed	519	475

As of 31 December 2005 and 31 December 2004, the share capital was owned by the following shareholders:

	2005 %	2004 %
Private individuals	65.29%	68.86%
Iluna group SPA, Italy	21.32%	18.43%
European Bank for Reconstruction and Development	12.68%	12.71%
Treasury shares	0.71%	-
	100%	**100%**

19. Finance lease obligations, Parent and Group

in millions of BYR	Minimum lease payments 31 December 2005	Present value of minimum lease payments 31 December 2005	Minimum lease payments 31 December 2004 (unaudited, restated)	Present value of minimum lease payments 31 December 2004 (unaudited, restated)
Amounts payable under finance leases				
Within one year	800	649	973	879
Second to fifth years inclusive	1 603	1 285	641	543
Over five years	-	-	-	-
Less: future finance charges	(469)	-	(192)	-
Present value of lease obligations	**1 934**	**1 934**	**1 422**	**1 422**
Less: amount due for settlement within 12 months		(649)		(879)
Amount due for settlement after 12 months		1 285		543

The Group leases certain equipment under finance leases agreements. The lease terms are from 13 to 60 months. Interest rates are not fixed and the risk of floating interest rates stays with the Group. All leases have fixed repayment schedule and no arrangements are stipulated for contingent rental payments. All lease obligations are denominated in US dollars and in EUR. The fair value of the Group's lease obligations approximates their carrying amount.

20. Trade accounts payable

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004 (restated)
Trade payables to third parties	4 965	5 567	4 428	5 336
Trade payables to related parties	2 226	2 905	2 226	2 905
	7 191	**8 472**	**6 654**	**8 241**

21. Other accounts payable

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004 (restated)
Payroll payable	577	546	506	482
Taxes payable	1 960	1 249	1 035	1 187
Trade advances received	82	237	69	237
Other payables	139	305	7	6
	2 758	**2 337**	**1 617**	**1 912**

22. Provisions

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004 (restated)
Provision for unused vacations	702	550	702	550
Provision for bonuses, restated	1 500	1 371	1 500	1 371
Other provisions	98	63	98	63
	2 300	1 984	2 300	1 984

Provision for unused vacations is calculated in accordance with the number of vacation days unused as at 31 December 2005 and the average remuneration during the reporting year.

Provision for bonuses is calculated in the amount of annual bonus approved by management.

Fundamental Error

In 2004, the Parent recognized bonus expenses when bonus payments were made, instead of accruing bonuses in the year to which they related. As a result of the fundamental error correction, 2004 annual bonuses of BYR 1,371 million were fully provided for as of 31 December 2004.

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004 (restated)
Provisions, as previously stated	2 300	613	2 300	613
Provision for final bonuses in 2004	-	1 371	-	1 371
Provisions, restated	2 300	1 984	2 300	1 984

23. Related parties

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parties that represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company or its subsidiaries. This includes holding companies, subsidiaries and fellow subsidiaries;

(b) Associates - enterprises in which the Company or its subsidiaries have significant influence and which are neither subsidiaries nor joint ventures of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Company or its subsidiaries that gives them significant influence over the Company or its subsidiaries;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Company or its subsidiaries, including directors and officers of the Company or its subsidiaries and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Company or its subsidiaries and enterprises that have a member of key management in common with the Company or its subsidiaries.

Included in the consolidated balance sheet as of 31 December 2005 and 31 December 2004 are the following transactions outstanding with related parties:

Trade accounts receivable from related parties

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
JV Milavitsa Trading Company Ltd, Minsk, Belarus	-	-	4 584	4 677
CJST Metropolitan Trade Company Milavitsa, Moscow, Russian Federation	-	-	10 394	-
CJSC Trade house Milavitsa, Moscow, Russian Federation	2 094	1 349	-	1 349
Trade house Milavitsa Ltd., Novosibirsk, Russian Federation	601	390	-	390
Trade house Milavitsa Ltd., Ufa, Russian Federation	142	67	-	67
CJSC Trade house Milavitsa, Tiumen, Russian Federation	61	64	-	64
Trade house Milavitsa Ltd., Kiev	966	-	966	-
Cagi Magliere SPA, Italy	-	116	-	116
Gratsiya Ltd., Minsk, Republic of Belarus	-	4	-	4
	3 864	**1 990**	**15 944**	**6 667**

Other accounts receivable from related parties

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
France Style Lingerie	-	57	-	57
	-	57	-	57

Trade accounts payable to related parties

in millions of BYR	Consolidated financial statements		Parent company's financial statements	
	2005	2004 (unaudited)	2005	2004
Iluna group SPA, Italy	2 226	2 807	2 226	2 807
Cagi Magliere SPA, Italy	-	96	-	96
Gratsiya Ltd., Minsk, Republic of Belarus	-	2	-	2
	2 226	**2 905**	**2 226**	**2 905**

Revenue from sales to related parties

	Consolidated financial statements		Parent company's financial statements	
	2005	2004	2005	2004
JV Milavitsa Trading Company Ltd, Minsk, Belarus	-	-	14 905	4 143
CJST Metropolitan Trade Company Milavitsa, Moscow, Russian Federation	-	-	55 388	-
CJSC Trade house Milavitsa, Moscow, Russian Federation	7 284	6 983	1 917	6 983
Trade house Milavitsa Ltd., Novosibirsk, Russian Federation	6 365	7 042	1 632	7 042
Ural Trade house Milavitsa Ltd., Ufa, Russian Federation	1 614	1 442	461	1 442
CJSC Trade house Milavitsa, Tiumen, Russian Federation	1 123	1 325	274	1 325
Cagi Magliere SPA, Italy	-	168	-	168
	16 386	**16 960**	**74 577**	**21 103**

Purchases of goods from related parties

	Consolidated financial statements		Parent company's financial statements	
	2005	2004	2005	2004
Iluna Group SPA, Italy	9 930	11 405	9 930	11 405
Cagi Magliere SPA, Italy	-	306	-	306
Gratsiya Ltd., Minsk, Republic of Belarus	1 868	1 165	1 868	1 165
CJSC Jimil	-	-	82	5
	11 798	**12 876**	**11 880**	**12 881**

Remuneration of key management

	Consolidated financial statements		Parent company's financial statements	
	2005	2004	2005	2004
Salary and bonuses	850	543	777	541
Dividends paid	49	68	49	68
	899	**611**	**826**	**609**

24. 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 credit risk exposures, market movements in interest rates and foreign exchange rates and liquidity. A description of the Group's risk management policies in relation to those risks follows.

Credit risk - The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers.

Currency risk - Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is managing currency risk by assessing the current market situation and holding short term cash deposits with banks.

Interest rate risk - Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group manages interest rate risks by entering into finance lease agreements with interest rates that do not significantly differ from market rates in currencies that have relatively stable interest rates.

Liquidity risk - Liquidity risk arises in the process of financing the Group's activities. It includes the risk of inability to raise sufficient funding of assets with adequate timing and interest rates as well as the risk that the Group would be unable to realize assets for adequate price and within appropriate terms.

25. Fair value of financial instruments

Cash and cash equivalents - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Accounts receivable - Carrying value of these financial instruments is a reasonable estimate of fair value due to their short-term nature.

Investments - As fair value of investments cannot be reliably estimated, they are recorded at cost adjusted for hyperinflation, except for investment in securities available for sale, which are accounted at cost less impairment loss.

Accounts payable - Carrying value of these financial instruments is a reasonable estimate of fair value due to their short-term nature.

24. 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 credit risk exposures, market movements in interest rates and foreign exchange rates and liquidity. A description of the Group's risk management policies in relation to those risks follows.

Credit risk - The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers.

Currency risk - Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is managing currency risk by assessing the current market situation and holding short term cash deposits with banks.

Interest rate risk - Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group manages interest rate risks by entering into finance lease agreements with interest rates that do not significantly differ from market rates in currencies that have relatively stable interest rates.

Liquidity risk - Liquidity risk arises in the process of financing the Group's activities. It includes the risk of inability to raise sufficient funding of assets with adequate timing and interest rates as well as the risk that the Group would be unable to realize assets for adequate price and within appropriate terms.

25. Fair value of financial instruments

Cash and cash equivalents - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Accounts receivable - Carrying value of these financial instruments is a reasonable estimate of fair value due to their short-term nature.

Investments - As fair value of investments cannot be reliably estimated, they are recorded at cost adjusted for hyperinflation, except for investment in securities available for sale, which are accounted at cost less impairment loss.

Accounts payable - Carrying value of these financial instruments is a reasonable estimate of fair value due to their short-term nature.