

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from a financial adviser authorised pursuant to the Financial Services and Markets Act 2000 (“FSMA”) if you are in the United Kingdom or, if you are not, from another appropriately authorised financial adviser.

If you have sold or otherwise transferred all or part of your Pyaterochka Shares or GDRs in Pyaterochka Holding N.V. (the “Company”), please forward this document at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Shareholder Circular

for



PYATEROCHKA HOLDING N.V.

(A public limited liability company incorporated in the Netherlands)

Approval of the proposed acquisition of Perekrestok Holdings Limited, issue of 15,813,253 New Pyaterochka Shares and exclusion of pre-emption rights, amendment of articles, appointment of new Supervisory and Managing Directors, and Convocation of Extraordinary General Meeting

The whole of this document should be read. Shareholders' attention is drawn to the letter from the Chairman of the Board of Supervisory Directors set out in "*Part I – Letter from the Chairman of the Board of Supervisory Directors of Pyaterochka*" which recommends that you vote in favour of the resolutions to be proposed at the Extraordinary General Meeting referred to below.

Convocation of an Extraordinary General Meeting of the Company, to be held at Rokin 55, 1012 KK Amsterdam, The Netherlands, at 11 am (Central European time) on 12 May 2006 is set out in "*Part XV – Convocation of Extraordinary General Meeting*" on pages 223 to 224 of this document.

HSBC Bank plc, which is regulated in the United Kingdom by the FSA, is acting exclusively for the Company and no one else in connection with the Perekrestok Transaction and the proposed Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of HSBC Bank plc, nor for providing advice to any other person in relation to the Perekrestok Transaction and the proposed Admission.

GDR Holders may vote subject to the terms of the GDR Conditions, in particular Condition 12. The Company will provide to the Depository appropriate copies of the relevant documentation, and the Depository will send to GDR Holders such documentation, including requests for voting instructions, and notification of the deadline by which GDR Holders must provide instructions to the Depository.

Shareholders who are unable to attend the Extraordinary General Meeting will be able to exercise their right to vote by a written proxy, in the English language, duly executed and legalised in accordance with the laws of the country where the proxy is issued. Proxy holders will be required to present their power of attorney at the meeting.

Forward-Looking statements

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the words “target”, “believes”, “expects”, “aims”, “intends”, “will”, “may”, “anticipates”, “would”, “could” or “should” or similar expressions or, in each case their negative or other variations or by discussion of strategies, plans, objectives, goals, future events or intentions. These forward-looking statements all include matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company and/or its management concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategy and dividend policy of the Company and the industries in which it operates. By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company’s control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Forward-looking statements are not guarantees of future performance. The important factors that could cause the Company’s actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include, among others:

- those discussed in “Risk Factors”, “Operating and Financial Review” and elsewhere in this document; and
- the ability of the Enlarged Group or of the Pyaterochka Group to implement and finance its expansion programme in its current and, potentially new, markets.

These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by the Listing Rules.

No incorporation of website information

The contents of the Company’s website do not form part of this document and investors should not rely on them.

Presentation of financial and other information

In this document, the terms “Pyaterochka” and the “Pyaterochka Group” refer to the Company and, as the context requires, the companies it controls or which are otherwise included in the Company’s audited consolidated financial statements. The terms “Perekrestok” and the “Perekrestok Group” refer to Perekrestok and, as the context requires, the companies it controls or which are otherwise included in Perekrestok’s audited consolidated financial statements. Control by the Company is normally evidenced when the Company owns, either directly or indirectly, more than 50 per cent. of the voting rights of a company’s share capital or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The Company’s audited consolidated financial statements in respect of the financial years ended 31 December 2005, 2004 and 2003 included in this document (the “**Pyaterochka Financial Statements**”) and Perekrestok’s audited consolidated financial statements in respect of the financial years ended 31 December 2005 and 31 December 2004 respectively included in this document (the “**Perekrestok Financial Statements**” and together with the Pyaterochka Financial Statements, the “**Financial Statements**”) have been prepared in accordance with IFRS. For a discussion of the principles of consolidation of the Financial Statements, see “Pyaterochka – Operating and Financial Review – Critical accounting policies – Principles of consolidation” and the Notes to the Pyaterochka Financial Statements and “Perekrestok – Operating and Financial Review – Critical Accounting Policies, Estimates and Judgements in Applying Accounting Policies” and the Notes to the Perekrestok Financial Statements.

Companies acquired or disposed of during the year are included in the Pyaterochka Financial Statements from the date of acquisition to the date of disposal. Intercompany balances and transactions, including intercompany profits and losses, are eliminated. The Pyaterochka Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Where like-for-like revenue information is given in this document, it is a comparison in two consecutive financial periods of the revenue of the stores open at the beginning of the first of the two consecutive financial

periods and not closed down permanently, expanded or downsized by the end of the second of the two consecutive financial periods. Such revenue is calculated on the basis of the gross cash receipts of the relevant stores translated into US dollars (at the average of the official exchange rates quoted by the Central Bank of Russia (the “**Central Bank**”) in the relevant year) and adjusted for applicable taxes to arrive at a net revenue on a per store basis. The Pyaterochka Group calculates like-for-like revenue on the basis of certain assumptions made by management of the Company, including assumptions relating to tax. Therefore, the Pyaterochka Group’s like-for-like revenue information may not be comparable to like-for-like revenue information reported by other companies and the Perekrestok Group and the Pyaterochka Group may use different methods to calculate like-for-like revenue.

In this document, all references to the “Pyaterochka Group’s stores”, “Pyaterochka’s stores”, “Perekrestok’s stores”, “Perekrestok Group’s stores” or the “Enlarged Group’s stores” are to the stores operated by the Pyaterochka Group, the Perekrestok Group or the Enlarged Group respectively and exclude any stores operated under the Pyaterochka brand by the Pyaterochka Group’s franchisees or under the Perekrestok Group brands by the Perekrestok Group franchisees (the “**franchise stores**”). In this document, all references to “banner sales” are to the total revenue of all stores operating under the Pyaterochka brand, including the franchise stores. Such banner sales referred to in the document have been calculated as an aggregate of the Pyaterochka Group’s sales and the franchise stores’ sales as reported to the Pyaterochka Group by its franchisees. The Financial Statements include only royalty payments paid from the franchisees to the Pyaterochka Group and do not include the franchisees’ gross revenues.

In this document, all references to “OOO” and to “LLC” are to a limited liability company and all references to “ZAO” and “CJSC” are to a closed joint stock company.

In this document, all references to the “Moscow oblast” are to the Russian administrative region immediately surrounding the city of Moscow and all references to the “Moscow area” are to the area comprising Moscow and the Moscow oblast. In this document, all references to the “Leningrad oblast” are to the administrative region immediately surrounding the city of St. Petersburg (formerly Leningrad) and all references to the “St. Petersburg area” are to the area comprising St. Petersburg and the Leningrad oblast.

In this document all references to “RUR”, “RUB”, “RR” and “Rouble” are to the currency of Russia, all references to “€” and “Euro” are to the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union, all references to “£” are to the currency of the United Kingdom of Great Britain and Northern Ireland, and all references to “US\$” and “US dollar” are to the currency of the United States of America.

The term “business day” means a day on which banks are open for normal banking business in London and Amsterdam.

This document contains translations of certain amounts into US dollars at specified rates solely for the purpose of presentation. These translations should not be construed as representations that the amounts actually represent such equivalent US dollar amounts or could be, or could have been, converted into US dollars at the rate indicated as of the dates mentioned herein or at all. See “Exchange Rate Information”.

Certain figures included in this document have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Sources of information

The information contained in this document that has been sourced from a third party has been accurately reproduced and, so far as Pyaterochka is aware, and so far as it is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This document includes market, industry and market share data taken from industry reports. In particular, market data has been sourced from reports published by, among others, the Russian State Statistics Committee (“**Rosstat**”), Interactive Research Group, Institute of Grocery Distribution (“**IGD**”) and GfK RUS (“**GfK**”). In the preparation of this document, this third-party information has not been independently verified nor has there been any investigation of the validity of the methodology of or the basis used by the third parties in producing such data or making estimates and forecasts. Although Pyaterochka believes these sources to be reliable, Pyaterochka cannot give any assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

All times and dates shown in this document are Amsterdam times unless otherwise stated

Announcement of the Perekrestok Transaction	12 April 2006
Publication of the Convocation of Extraordinary General Meeting	26 April 2006
Posting of this document	24 April 2006
Extraordinary General Meeting	11 am on 12 May 2006

PART I. LETTER FROM THE CHAIRMAN OF THE BOARD OF SUPERVISORY DIRECTORS OF PYATEROCHKA

Rokin 55, 1012 KK Amsterdam
The Netherlands
Incorporated in the Netherlands (Registration Number 33143036)

24 April 2006

Dear Shareholder or GDR Holder

Proposed acquisition of Perekrestok Holdings Limited (“Perekrestok”)

1. Introduction

I am delighted to inform you that on 12 April 2006 the Board of Supervisory Directors of Pyaterochka announced the merger of Pyaterochka and Perekrestok, a majority-owned subsidiary of the Alfa Group. The merger will be effected through an acquisition, by Pyaterochka, of the entire issued share capital of Perekrestok from Luckyworth Limited (“**Luckyworth**”), (a majority-owned subsidiary of the Alfa Group, with the remaining shares owned by members of Perekrestok’s management), and Templeton Strategic Emerging Markets Fund LDC (“**Templeton**”) (the “**Perekrestok Transaction**”).

The consideration for the acquisition of Perekrestok is US\$300 million in cash and the issue of 15,813,253 new Pyaterochka Shares (the “**New Pyaterochka Shares**”) to the Perekrestok Sellers as ordinary shares or in the form of GDRs. Based on the average closing price per GDR of US\$16.83 during the 30 trading days prior to and including 5 April 2006, the last trading day prior to Pyaterochka’s announcement that it was in merger discussions with Perekrestok, the transaction values Perekrestok at US\$1,365 million.

In addition, Cesaro Holdings Limited (“**Cesaro**”), a wholly-owned subsidiary of Alfa Group, and Luckyworth have purchased 2,467,917 Pyaterochka Shares from Marie-Carla Corporation N.V. and Tayleforth N.V., companies controlled by Andrei Rogachev and Alex Girda, (the “**Founding Shareholders**”), for US\$200 million in cash, and have agreed to purchase a further 12,068,115 Pyaterochka Shares from the Founding Shareholders, subject to certain adjustments, for US\$978 million in cash on completion (the “**Pyaterochka Transaction**”). Alfa Group’s purchase of a total of 14,536,032 Pyaterochka Shares from the Founding Shareholders for a total of US\$1,178 million in cash is the equivalent to US\$20.26 per GDR, and represents a 20.4 per cent premium to the average closing price per GDR of US\$16.83 during the 30 trading days prior to and including 5 April 2006, the last trading day prior to Pyaterochka’s announcement that it was in merger discussions with Perekrestok. Completion of each of the Perekrestok Transaction and the Pyaterochka Transaction are conditional on completion of the other.

Upon completion of the Perekrestok Transaction and the Pyaterochka Transaction, and before any adjustments, Alfa Group (together with certain members of Perekrestok management) will become the majority shareholder in Pyaterochka with a holding of 54.0 per cent. and the Founding Shareholders, together with other members of Pyaterochka’s senior management, will retain a holding of 21.2 per cent. Templeton will have a holding of 2.1 per cent. in the Enlarged Group, and has entered into an 18-month lock-up agreement with CTF Holdings Limited (“**CTF**”), the holding company of the Alfa Group, in respect of its holding. Pursuant to the Pyaterochka Agreement, Alfa Group has entered into a lock-up undertaking with the Founding Shareholders, valid for one year after the expected closing date of the transaction. The Company is not a party to the Pyaterochka Transaction and the Shareholders are, therefore, not required to approve the Pyaterochka Transaction. A summary of the Pyaterochka Transaction is set out in Part X “Summary of Perekrestok Transaction Documents” of this document.

Completion of the Perekrestok Transaction is conditional, amongst other things, upon Shareholders approving the Perekrestok Transaction, regulatory consents, Pyaterochka agreeing and entering into legal documentation with financing banks with respect to the cash element of the Perekrestok Transaction or issuing Loan Notes to the Perekrestok Sellers for US\$300 million, the issue of the New Pyaterochka Shares and the exclusion of pre-emption rights attached to such shares.

As part of the terms of the Perekrestok Transaction and Pyaterochka Transaction, companies controlled by Andrei Rogachev and Alexander Girda have agreed to grant Pyaterochka a call option, exercisable in 2008, to acquire the entire share capital of Formata Holding B.V., which operates a chain of hypermarkets under the Carousel brand in St. Petersburg, the Leningradsky region and Nizhni Novgorod. The consideration for the exercise of the call option will be in cash and Pyaterochka Shares and will be calculated by reference to the future financial performance of Formata.

You will find further information relating to the Perekrestok Transaction in Parts III to XIV of this document. The purpose of this document is to provide all the Shareholders and GDR Holders with information on the Perekrestok Transaction and to seek the approval of the Shareholders for the resolutions set out in the Convocation which will be proposed at the Extraordinary General Meeting to be held at 11 am Central European time on 12 May 2006 at Rokin 55, 1012 KK Amsterdam, The Netherlands.

The Extraordinary General Meeting will be asked to approve the:

- (a) Resolutions of the Management Board to enter into the Perekrestok Transaction, in accordance with Article 17 sub 1 of the articles of association of Pyaterochka (the “**Articles**”) as well as on the basis of article 2:107a of the Dutch Civil Code;
- (b) Issue of the New Pyaterochka Shares pursuant to article 6 sub 1 of the Articles;
- (c) Exclusion of rights of pre-emption of the Shareholders to subscribe for the New Pyaterochka Shares in accordance with Article 7 sub 3 of the Articles;
- (d) Entering into all legal acts referred to in Section 2:94 paragraph 2 Dutch Civil Code by the Management Board in respect of the contribution in kind on the New Pyaterochka Shares;
- (e) Amendment to the Articles to the effect that the Management Board may consist of, *inter alia*, two or more Directors C and that entries and notes into the Shareholder register shall be signed by the Director B only;
- (f) Appointment of new Directors A and C to the Management Board and expansion of the Management Board;
- (g) Appointment of new members to the Board of Supervisory Directors and expansion of the Board of Supervisory Directors;
- (h) Acceptance of resignation and granting of full and final discharge to the resigning members of the Board of Supervisory Directors; and
- (i) Appointment of members of the Management Board as persons as referred to in Section 2:146 Dutch Civil code and Article 16 sub 4 of the Articles in order to represent Pyaterochka with respect to the Perekrestok Transaction.

The proposed resolutions referred to in (b) to (i) above will be conditional on completion of the Perekrestok Transaction and Pyaterochka Transaction.

2. Information on Perekrestok

Perekrestok is the largest supermarket chain in Russia, both in terms of sales and number of stores, and one of the fastest growing supermarket chains in Russia. As at 31 December 2005, Perekrestok operated a chain of 120 owned stores (90 in 2004) located primarily in Moscow, Nizhni Novgorod, St Petersburg, other large cities in the European part of Russia and Ukraine with a total net selling space of over 141,495 square metres (102,428 square metres in 2004). In addition, as at 31 December 2005 Perekrestok had nine stores under franchise agreements (four stores in 2004). For the year ended 31 December 2004, the Perekrestok Group reported net sales of approximately US\$660 million (an increase of 77 per cent over the US\$373 million of net sales reported in 2003), and for the year ended 31 December 2005 reported net sales of approximately US\$1,015 million (an increase of 54 per cent over the previous year). Perekrestok like-for-like sales increased by 15.7% in 2004, and by 17.6% in 2005.

Further information about Perekrestok is located in Part V “Business Information on Perekrestok” and Part VI “Financial Information and Operating and Financial Reviews” of this document.

3. Background to and reasons for the Perekrestok Transaction

Pyaterochka believes that its merger with Perekrestok represents a truly exciting prospect for Pyaterochka, creating the clear leader in the fast growing Russian food retail market with the potential for accelerated future growth as a result of the Enlarged Group’s multi-format capability.

The multi-format approach will consist of running Pyaterochka’s and Perekrestok’s current store format strategies separately, resulting in minimal merger disruption. This will therefore allow management to continue to focus on rapid growth whilst simultaneously optimising various aspects of their operations including purchasing, distribution, logistics, IT, new store development and real estate purchasing. The diversification into a wider range of store formats will provide the Enlarged Group with a larger share of the rapidly growing Russian food retail market and is expected to significantly enhance its growth outlook.

Pyaterochka believes that the Enlarged Group will benefit from:

- (a) a clear leadership position in the fast growing Russian food retail market;
- (b) a combination of two strong management teams as well as an enhanced ability to attract and retain management talent;
- (c) a diversified and complementary geographic presence, creating the leader in the key Moscow and St Petersburg markets and a strong and proven platform for rapid expansion in the large and relatively under-developed markets of the Russian regions (particularly in the European parts of Russia), Ukraine and Kazakhstan;
- (d) a multi-format capability by combining Pyaterochka's successful discount format with Perekrestok's leading chain of supermarkets, with the potential for accelerated growth;
- (e) improved access to high quality real estate in Moscow, St Petersburg and the Russian regions with the opportunity to share information relating to new store opportunities; and
- (f) potential for substantial synergies, including economies of scale in purchasing, logistics and IT, and sharing of best practices within the Enlarged Group.

The strategic focus of the Enlarged Group will be to maintain profitable growth in the Russian food retail market by enhancing its leadership position in the key Moscow and St Petersburg markets, developing its market presence through its multi-format approach in core regional markets as well as expanding into other Russian regions and neighbouring countries through acquisitions and franchising.

In addition, the Enlarged Group will seek to increase profitability by delivering purchasing scale benefits, continued investment in distribution and logistics, increased sales of private label goods and other operating cost efficiencies.

The Enlarged Group will seek to minimise potential disruption following the acquisition of Perekrestok by Pyaterochka. Therefore, in the short term, while extracting the purchasing synergies and optimising future investments, there will be limited changes in operations, including no re-branding of stores or change in logistics. The Enlarged Group will continue to run Pyaterochka's and Perekrestok's current store format strategies separately.

Further information about the reasons for the Perekrestok Transaction and the financial effects of the Perekrestok Transaction are located in Part III "Rationale for and Principal Terms of the Perekrestok Transaction" of this document.

4. Terms and financing of the Perekrestok Transaction, Issuance of New Pyaterochka Shares and Exclusion of Pre-emption Rights

Pursuant to the sale and purchase agreement dated 11 April 2006 entered into between the Perekrestok Sellers and Pyaterochka (the "**Perekrestok Acquisition Agreement**"), Pyaterochka has agreed to acquire the entire share capital of Perekrestok. Under the terms of the Perekrestok Acquisition Agreement, the consideration for the acquisition of the entire share capital of Perekrestok is US\$300 million in cash (the "**Cash Consideration**") and the issue of 15,813,253 New Pyaterochka Shares in the form of ordinary shares or GDRs. Based on the average closing price per GDR of US\$16.83 during the 30 trading days prior to and including 5 April 2006, the last trading day prior to Pyaterochka's announcement that it was in merger discussions with Perekrestok, the transaction values Perekrestok at US\$1,365 million.

Pyaterochka is obliged under the terms of the Perekrestok Acquisition Agreement to use its reasonable endeavours to issue a Prospectus prior to closing the Perekrestok Transaction to enable New GDRs to be issued to the Perekrestok Sellers in respect of the New Pyaterochka Shares and to make an application to the UKLA and to the London Stock Exchange respectively, for admission of the New GDRs (i) to the Official List; and (ii) to trading on the London Stock Exchange's market for listed securities ("**Admission**"). The Prospectus has not been issued as at the date of this document. If Pyaterochka issues the Prospectus prior to the date of the Extraordinary General Meeting, the Prospectus will be made publicly available to Shareholders and to GDR Holders by publication on Pyaterochka's website (<http://www.e5.ru>) and copies will be available at the Extraordinary General Meeting. There can be no assurance that the Prospectus will not contain additional information to the information set out in this document. If Pyaterochka issues the Prospectus and the UKLA and London Stock Exchange agree to Admission prior to closing the Perekrestok Transaction, the Perekrestok Sellers will be issued New GDRs in respect of the New Pyaterochka Shares and it is expected that listing will become effective following the date on which it is announced that all conditions to the Perekrestok Transaction have been fulfilled. If Pyaterochka does not issue the Prospectus or the UKLA and London Stock Exchange do not agree to Admission prior to closing the Perekrestok Transaction, the Perekrestok Sellers will be issued Pyaterochka Shares in the form of ordinary shares.

The Cash Consideration and the New Pyaterochka Shares will be allocated as follows:

<u>Perekrestok Seller</u>	<u>Number of Perekrestok shares sold to Pyaterochka</u>	<u>Portion of Cash Payment</u>	<u>Number of New Pyaterochka Shares</u>	<u>Number of Perekrestok shares contributed in kind as payment for the Pyaterochka Shares</u>
Luckyworth	1,447,322	US\$278,612,982	14,685,925	1,447,322
Templeton	111,100	US\$ 21,387,018	1,127,328	111,100

Each New Pyaterochka Share has a nominal value of €1.00 and each New GDR will represent 0.25 Pyaterochka Shares. The issue price of each New Pyaterochka Share is €1.00 (its nominal value).

Pursuant to the terms of the Perekrestok Acquisition Agreement, the Perekrestok Sellers have given certain representations and warranties usual for a transaction of this nature and Luckyworth has given certain indemnities usual for a transaction of this nature. Pyaterochka has also given certain representations, warranties and indemnities usual for a transaction of this nature. The Perekrestok Acquisition Agreement may be terminated at any time prior to closing of the Perekrestok Transaction in certain circumstances, including if certain of the conditions precedent to closing of the Perekrestok Transaction are not satisfied, complied with or waived on or before 18 May 2006 or such later date as the Perekrestok Sellers may notify Pyaterochka in writing in their sole discretion, but in any event no later than 22 June 2006. A summary of the principal terms and conditions of the Perekrestok Acquisition Agreement is set out in Part X “Summary of Perekrestok Transaction Documents” of this document.

Pursuant to article 6 sub 1 of the Articles, the issue of New Pyaterochka Shares requires a resolution of the Extraordinary General Meeting. At the Extraordinary General Meeting, Shareholders will be requested to resolve to issue the New Pyaterochka Shares conditional on closing of the Perekrestok Acquisition Agreement. In addition, pursuant to article 7 sub 2 of the Articles, each Shareholder has a right of pre-emption to acquire Pyaterochka Shares in the event of the issue of new Pyaterochka Shares. At the Extraordinary General Meeting, Shareholders will be asked to exclude such rights of pre-emption in accordance with article 7 sub 3 of the Articles in connection with the issuance of the New Pyaterochka Shares.

Under Dutch corporate law, the acquisition of the entire share capital of Perekrestok by Pyaterochka shall qualify as a contribution in kind (“*inbreng anders dan in geld*”) by Perekrestok Sellers on the issue of the New Pyaterochka Shares, subject to the following terms and conditions:

- (a) the amount of the Cash Consideration shall qualify as an amount to be credited against the value of the entire issued share capital of Perekrestok (“*creditering ten laste van de inbreng*”);
- (b) the value of the entire issued share capital of Perekrestok in excess of the sum of (i) the nominal value of the New Pyaterochka Shares and (ii) the Cash Consideration shall be considered as a voluntary share premium payment (“*niet bedongen agio*”) on the New Pyaterochka Shares.

In accordance with article 2:94 b sub 2 and 2:94 a sub 2 of the Dutch Civil Code, Deloitte Accountants B.V., statutory auditor, has issued a statement confirming that the value of entire issued share capital of Perekrestok which will be transferred to the Company as a contribution in kind, less the value of the Cash Consideration, is based on valuation methods generally accepted in the Netherlands at least equal to the nominal value of €15,813,253 payable upon the issue of the New Pyaterochka Shares.

Pyaterochka has entered into a formal commitment letter and term sheet with financing banks in connection with financing the US\$300 million cash element of the consideration for the Perekrestok Transaction. The availability of such finance depends upon the banks finalising their due diligence and Pyaterochka agreeing and entering into legal documentation relating to the financing with the banks. Pyaterochka is confident that such agreement will be reached and the financing be obtained prior to completion of the Perekrestok Transaction. If financing is not obtained from the banks, Pyaterochka shall issue the Loan Notes to the Perekrestok Sellers for US\$300 million in satisfaction of the Cash Consideration payable for the acquisition of Perekrestok. The Loan Notes have a term of 60 days and will need to be re-financed by Pyaterochka within this time period. A summary of the principal terms of the Term Sheet is set out in Part X “Summary of Perekrestok Transaction Documents” of this document.

5. Further Detail on the Perekrestok Transaction and Risk Factors

I would like to draw your attention in particular to Part II “Risk Factors” and Part III “Rationale for and Principal Terms of the Perekrestok Transaction” of this document.

However, the entirety of this document contains important information and I strongly encourage you to read it.

6. Board of Supervisory Directors Matters

All of the other members of the Board of Supervisory Directors hold interests in major shareholders of Pyaterochka. Those major shareholders are also parties to the Pyaterochka Transaction. As the Pyaterochka Transaction and the Perekrestok Transaction are inter-conditional these members of the Board of Supervisory Directors have conflicts of interest with the Company in relation to the Perekrestok Transaction. The Board of Supervisory Directors has instituted procedures to ensure that decisions relating to the Perekrestok Transaction are taken by me and members of the Board of Supervisory Directors with a conflict of interest have refrained from participating in the deliberations and decision making process in relation to the Perekrestok Transaction.

HSBC has also issued a fairness opinion to the Board of Supervisory Directors stating its opinion that the consideration payable by Pyaterochka for its acquisition of Perekrestok is fair, from a financial point of view, to Pyaterochka.

In addition, as certain members of the Management Board and Board of Supervisory Directors have a conflict of interest should Pyaterochka bring a claim under the Perekrestok Acquisition Agreement, at the Extraordinary General Meeting on 12 May 2006 it will be proposed to appoint a committee that has exclusive power to represent Pyaterochka if the occasion arises. This committee will consist of Mr. W. G. Rieff, Mr. O. Vysotsky and Ms. A. Li (for so long as each remains a member of the Management Board).

Under the new Dutch corporate governance code, the Board of Supervisory Directors should consist of independent persons, except for one member. At the moment, Pyaterochka is not compliant with this provision. It is intended that by the end of 2006, one of the five Alfa Group representatives nominated for appointment to the Board of Supervisory Directors at the Extraordinary General Meeting will be replaced by an independent director.

7. Appointment of new Supervisory and Managing Directors and granting of full and final discharge to resigning Supervisory Directors

Under the Articles, members of both the Management Board and the Board of Supervisory Directors are nominated by the Board of Supervisory Directors and appointed by the Shareholders at the General Meeting of Shareholders from a list of nominees, drawn up by the Board of Supervisory Directors, containing names of at least two persons for each vacancy. The Shareholders may reject a binding nomination at the General Meeting of Shareholders by a supermajority vote of two-thirds of the votes cast representing more than half of the issued share capital of the Company.

Under the Dutch Corporate Governance Code, supervisory directors are generally appointed for a maximum term of four years and may not be re-appointed more than twice for a term of four years. Under the Articles, members of the Management Board are appointed for a maximum term of four years and may be re-appointed for a term of not more than four years at a time.

The Board of Supervisory Directors nominates the following candidates, who will be representatives of the Alfa Group, for positions at the Board of Supervisory Directors. Further details of their age, relevant present and past functions, other Board of Supervisory Directors memberships, and reasons for their appointment, can be found at Part VII "Management" of this document.

- (a) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Board of Supervisory Directors upon resignation of Mr. Alexander Girda as member of the Board of Supervisory Directors at the Extraordinary General Meeting, to serve until 2010.
 - (i) Mr. Alexander Kosiyenko, or, alternatively,
 - (ii) Mr. Franz Wolf.
- (b) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Board of Supervisory Directors upon resignation of Mr. Igor Vidiaev as member of the Board of Supervisory Directors at the Extraordinary General Meeting, to serve until 2010.
 - (i) Mr. Mikhail Fridman, or, alternatively,
 - (ii) Ms. Alla Kudryavtseva.
- (c) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Board of Supervisory Directors at the Extraordinary General Meeting, to serve until 2010.
 - (i) Mr. Nigel Robinson, or, alternatively,
 - (ii) Mr. Leonid Reznikovich.

- (d) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Board of Supervisory Directors at the Extraordinary General Meeting, to serve until 2010.
 - (i) Mr. Alexander Savin, or, alternatively,
 - (ii) Ms. Olga Manuylova.
- (e) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Board of Supervisory Directors at the Extraordinary General Meeting, to serve until 2010.
 - (i) Mr. David Gould, or, alternatively,
 - (ii) Mr. Frank Dell.

The Board of Supervisory Directors currently has five (5) members. In order that five of the nominees set out above can be appointed to the Board of Supervisory Directors, the Extraordinary General Meeting will be requested to resolve to increase the number of members of the Board of Supervisory Directors from five (5) to eight (8).

The Extraordinary General Meeting will be requested to grant the resigning members of the Board of Supervisory Directors, Mr. Alexander Girda and Mr. Igor Vidiaev full and final discharge for their supervision.

The Board of Supervisory Directors nominates the following candidates for positions at the Management Board as Directors. Further details of their age, relevant present and past functions, other directorships, and reasons for their appointment, can be found at Part VII "Management" of this document.

- (a) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Management Board as a Director A at the Extraordinary General Meeting, to serve until 2010, whereby the Board of Supervisory Directors attributed Mr. Lev Khasis and (alternatively) Mr. Alexander Kuchinski the title of Chief Executive Officer ("CEO"):
 - (i) Mr. Lev Khasis, and
 - (ii) Mr. Alexander Kuchinski.
- (b) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Management Board as a Director A at the Extraordinary General Meeting, to serve until 2010, whereby the Board of Supervisory Directors attributed Mr. Vitaly Podolsky and (alternatively) Mr. Anton Mironenkov the title of Chief Financial Officer ("CFO"):
 - (i) Mr. Vitaly Podolsky, and
 - (ii) Mr. Anton Mironenkov.
- (c) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Management Board as a Director C at the Extraordinary General Meeting, to serve until 2010:
 - (i) Mr. Pawel Musial, and
 - (ii) Mr. Andrey Rybakov.
- (d) The Board of Supervisory Directors has prepared a binding nomination of the following two persons for appointment to the Management Board as a Director C at the Extraordinary General Meeting, to serve until 2010:
 - (i) Andrei Gusev, and
 - (ii) Alexey Pankratov.

The Board of Supervisory Directors has resolved (i) to withdraw the title of CEO from Mr. O. Vysotsky and to request the Management Board to propose to the EGM that he be designated Director C instead of A, and (ii) to withdraw the title of CFO from Ms. A. Li and to request the Management Board to propose to the EGM that she be designated Director C instead of A, which designations require an amendment to the Articles to the effect that the Management Board may consist of, *inter alia*, two or more Directors C.

The Management Board currently consists of two Directors A and one Director B. In order that four of the nominees set out above can be appointed to the Management Board, the Extraordinary General Meeting will be

requested to resolve (i) to increase the number of Directors on the Management Board from three (3) to seven (7), consisting of two (2) Directors A, one (1) Director B and four (4) Directors C, (ii) to designate Mr. O. Vysotsky as Director C instead of A and to designate Ms. A. Li as Director C instead of A, and (iii) to amend the articles of association of the Company in accordance with the item (i) of this paragraph. Further, for practical purposes, the Extraordinary General Meeting will be requested to approve to amend the articles of association of the Company as such that any entries and notes in the Shareholders register of the Company shall be signed by the Director B (instead of all Directors).

A copy of the proposed amendment to the articles of association of the Company is set out in Part XVI of this document (the “**Amendment**”).

8. Extraordinary General Meeting

To approve the Perekrestok Transaction, and to confer on your Management Board the necessary authorities and powers to complete the Perekrestok Transaction, an Extraordinary General Meeting has been convened for 11 am Central European time on 12 May 2006 at Rokin 55, 1012 KK Amsterdam, The Netherlands. Convocation of the Extraordinary General Meeting is set out on pages 223 to 224 of this document.

The resolutions to be proposed at the Extraordinary General Meeting include resolutions to approve the Perekrestok Transaction and the related issue of the New Pyaterochka Shares and exclusion of pre-emption rights relating to the issue of those New Pyaterochka Shares. In addition, as noted under “Appointment of new Supervisory and Managing Directors and granting of full and final discharge to resigning Supervisory Directors”, resolutions to amend the Articles, to appoint new members to the Board of Supervisory Directors and Management Board respectively and to grant full and final discharge to the resigning members of the Board of Supervisory Directors will be proposed.

Due to the significance of the Perekrestok Transaction to Pyaterochka, Pyaterochka will not hold its annual general meeting at the same time as the Extraordinary General Meeting. It is expected that Pyaterochka’s annual general meeting will be held after closing of the Perekrestok Transaction and, in any event, by 30 June 2006.

9. Action to be taken

You are invited to attend our Extraordinary General Meeting. If you are unable to attend, you will be able to exercise your right as a Shareholder to vote by a written proxy, duly executed and legalised in accordance with the laws of the country where the proxy is issued. Proxy holders will be required to present their power of attorney at the meeting.

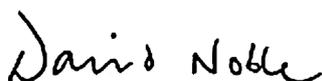
GDR Holders may vote subject to the terms of the GDR Conditions, in particular Condition 12. The Company will provide to the Depository appropriate copies of the relevant documentation, and the Depository will send to GDR Holders such documentation, including requests for voting instructions, and notification of the deadline by which GDR Holders must provide instructions to the Depository.

10. Recommendation

I, as the independent director on the Board of Supervisory Directors, which has been advised by HSBC, Pyaterochka’s financial adviser, consider the terms of the Perekrestok Transaction to be fair and reasonable to Pyaterochka. In providing advice to the Board of Supervisory Directors, HSBC has taken into account my assessment of the commercial merits of the Perekrestok Transaction. I consider the Perekrestok Transaction to be in the best interests of Pyaterochka and its affiliated enterprises.

Accordingly, I recommend Shareholders and GDR Holders to vote in favour of the resolutions to approve the Perekrestok Transaction, and related matters.

Yours truly



David Noble
Chairman

PART II. RISK FACTORS

Pyaterochka Shares and the GDRs are subject to a number of risks. Prospective investors should carefully consider the risks described below, together with all other information contained in this document, before deciding whether to invest in the Pyaterochka Shares or the GDRs. The occurrence of any of the following risks could adversely affect the Company's business, financial condition and operating results. As a result, the trading price of the Pyaterochka Shares or the GDRs could decline and investors could lose all or part of their investment. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

1.1 Risks relating to the Perekrestok Transaction

(a) Failure to obtain financing for the Cash Consideration for the Perekrestok Transaction

Pyaterochka has obtained a formal commitment letter and term sheet with a syndicate of financing banks in connection with financing the US\$300 million cash consideration for the Perekrestok Transaction. The availability of such finance to Pyaterochka depends upon the financing banks finalising their due diligence and Pyaterochka agreeing and entering into legal documentation relating to the financing with the banks. The Company is confident that such agreement will be reached and the financing obtained prior to completion of the Perekrestok Transaction but there can be no assurances that this will be the case. If financing is not obtained from the banks, Pyaterochka will issue the Loan Notes to the Perekrestok Sellers in satisfaction of the Cash Consideration for the Perekrestok Transaction. The Loan Notes will need to be refinanced within sixty days after closing of the Perekrestok Transaction. Failure to obtain such financing could have a material adverse effect on the Enlarged Group's business, results of operations or financial condition.

(b) Failure to complete the Perekrestok Transaction

The Perekrestok Acquisition Agreement may be terminated at any time prior to closing of the Perekrestok Transaction in certain circumstances, including if certain of the conditions precedent to closing of the Perekrestok Transaction are not satisfied, complied with or waived on or before 18 May 2006 or such later date as the Perekrestok Sellers may notify Pyaterochka in writing at their sole discretion, but in any event no later than 22 June 2006. Completion of the Perekrestok Transaction is conditional upon, among other things, the passing by Shareholders at a General Meeting of Pyaterochka of resolutions relating to the approval of the Perekrestok Transaction to the issue of New Pyaterochka Shares and the exclusion of Shareholders' rights of pre-emption in connection with the issue of the New Pyaterochka Shares. In addition, the Perekrestok Acquisition Agreement terminates automatically with immediate effect on the termination of the Pyaterochka Agreement. There can be no assurance that each of the conditions precedent referred to in paragraph 1.1(e) of Part X of this document will be satisfied or waived in accordance with the terms of the Perekrestok Acquisition Agreement or that the Perekrestok Acquisition Agreement will not be terminated prior to closing of the Perekrestok Transaction for any other reason.

(c) Failure to achieve anticipated cost savings/synergies

It may not prove possible to achieve or fully realise the expected levels of cost savings or synergy benefits on integration of the Perekrestok business with Pyaterochka and/or the cost of delivering such benefits may exceed the expected benefits. There is, therefore, a risk that the expected enhancement to Shareholder returns is not achieved either in whole or in part.

(d) Failure to integrate Perekrestok and Pyaterochka

Whilst the Company does not intend fully to integrate the Perekrestok Group operationally, to the extent that the Enlarged Group is unable to integrate successfully the operations and working practices of Perekrestok with those of Pyaterochka, retain key personnel or customers and avoid unforeseen costs or delay, there may be an adverse effect (which may be material) on the business, results of operations or the financial condition of the Enlarged Group. No assurance can be given that the integration process will deliver all of the expected benefits.

(e) Failure to obtain necessary regulatory consents

Completion of the Perekrestok Transaction is conditional on the Russian anti-monopoly authorities confirming that they have no objection to the Perekrestok Transaction. The anti-monopoly authorities may refuse their

approval or may seek to make their approval subject to compliance with onerous conditions. These conditions, if accepted, could have the effect of imposing significant additional costs on the Enlarged Group, of limiting the Enlarged Group's revenues, requiring divestitures of certain assets or imposing other operating restrictions upon the business of the Enlarged Group.

(f) The change of control of Pyaterochka may impact upon the future management, strategy and public perception of the Enlarged Group

Upon completion of the Perekrestok Transaction and the Pyaterochka Acquisition, Alfa Group will become the majority shareholder in Pyaterochka with a holding of 54 per cent. The change of control of Pyaterochka may impact upon the future management, strategy and public perception of the Enlarged Group which may have an adverse effect on the business, results of operations or financial condition of the Enlarged Group.

(g) The principal customers and suppliers of the Enlarged Group may not continue to deal with the Enlarged Group on the same terms as they currently deal with Pyaterochka and/or Perekrestok following the Perekrestok Transaction

There can be no assurance that the principal customers and suppliers of the Enlarged Group will continue to deal with the Enlarged Group on the same terms as those on which they currently deal with the Pyaterochka Group and/or Perekrestok Group following the Perekrestok Transaction. To the extent any such customers or suppliers will not continue to deal with the Enlarged Group following the Perekrestok Transaction or will only do so on less favourable terms, there may be an adverse effect on the business, results of operations or financial condition of the Enlarged Group.

(h) After entering into financing documentation for the Cash Consideration for the Perekrestok Transaction, Pyaterochka will have a significant amount of indebtedness, which may impair its operating and financial flexibility and could adversely affect the business and financial position of the Pyaterochka Group and/or the Enlarged Group and the ability to pay dividends

After entering into financing documentation for the Cash Consideration for the Perekrestok Transaction, the Enlarged Group will have a significant amount of indebtedness. The Enlarged Group's leverage and obligations under the new financing arrangements will have important consequences, including the following:

- (i) a significant portion of the Enlarged Group's cash flow from operations will be used for the payment of debt service obligations;
- (ii) the terms of the Enlarged Group's indebtedness may limit its ability to respond to market conditions;
- (iii) Pyaterochka's ability to pay dividends may be limited;
- (iv) the Enlarged Group's leverage may be higher than that of its competitors, placing it at a competitive disadvantage by restricting its ability to raise further finance; and
- (v) the Enlarged Group's vulnerability to both general and industry specific adverse conditions could be increased.

The financing documentation may contain a number of financial, operating and other obligations that will limit the Enlarged Group's operating and financial flexibility. The Enlarged Group's ability to comply with these obligations will depend on the future performance of its business.

If the Enlarged Group breaches any of the financial covenants contained in the financing documentation, it may be required to repay the borrowings in whole or in part together with any attendant costs. This could adversely affect the capital and income return to the Shareholders. A failure to fulfil the Enlarged Group obligations under the financing documentation may lead to a default under other Pyaterochka loan agreements due to cross-default provisions. In addition, the lenders may have the right to accelerate their debt and enforce any security that they hold over the assets of the Enlarged Group. In these circumstances this might have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

1.2 Risks relating to the Enlarged Group's business and industry

(a) Risks relating to demand and competition

A decline in consumer demand in the markets in which the Enlarged Group operates could adversely affect the Enlarged Group's revenue and profitability

Consumer demand in the markets in which the Enlarged Group operates depends upon a range of factors outside the Enlarged Group's control, including demographic factors, consumer preferences and discretionary consumer spending (which is in turn influenced by factors such as general economic conditions, the availability of disposable income and general levels of consumer confidence). A decline in consumer demand or preference in the markets in which the Enlarged Group operates could substantially reduce the Enlarged Group's revenue and profitability and thus may have a material adverse effect on its business, financial condition and operating results. In addition, the seasonality of consumer demand could cause significant fluctuations in the Enlarged Group's performance from period to period.

The Enlarged Group faces significant competition that could lead to a reduction of market share and a decline in profitability

The grocery retail industry in Russia is competitive. In recent years, the growth in consumer demand in Russia has attracted new market participants and has produced an increasingly competitive environment. Grocery retail chains compete mainly on the basis of location, quality of products, service, price, product variety and store condition. The Enlarged Group's ability to compete depends on its ability to maintain and remodel existing stores and develop new stores in advantageous locations, as well as to offer competitive prices and service. There can be no assurance that the Enlarged Group will be able to continue to do so in the future. Some of the Enlarged Group's current competitors or potential new entrants, particularly large international discounter chains, may have greater financial, distribution, purchasing and marketing resources, any of which could give them a competitive advantage. There can be no assurance that the Enlarged Group will be able to compete successfully against current competitors or future new entrants. Any loss of market share by the Enlarged Group could be permanent. Competitive pressures may reduce the Company's net profit and net cash provided by operating activities, which would have a material adverse effect on its business, financial condition and operating results.

(b) Risks relating to expansion

The failure of the Enlarged Group's expansion strategy could hamper its continued growth and profitability

At present, the stores operating under Pyaterochka's brand are located in the Moscow area, the St. Petersburg area and 14 other regions of Russia, as well as Kazakhstan and Ukraine. Stores operating under the Perekrestok brand are located in Moscow, St Petersburg and 11 other regions of Russia, as well as the Ukraine. As part of the Enlarged Group's strategy, it plans to increase substantially the number of stores operating under its brands in these areas, as well as to extend its franchising programme to cover 30 Russian regions by the end of 2008.

The successful implementation of the Enlarged Group's expansion strategy depends on its ability to locate and acquire appropriate sites on commercially reasonable terms, open new stores in a timely manner, employ, train and retain additional store and supervisory personnel and integrate the new stores into the Enlarged Group's existing operations on a profitable basis. There can be no assurance that the Enlarged Group will achieve the planned growth or that new stores will operate profitably. See also "Risks relating to the Enlarged Group's real estate – Failure to acquire rights to appropriate real estate on commercially acceptable terms, protect the Enlarged Group's real property rights or build and develop new stores on newly acquired sites could have a material adverse effect on the Enlarged Group's business, financial condition and operating results".

Expansion through acquisition entails certain risks, which may have a material adverse effect on the Enlarged Group's financial condition and operating results

The Enlarged Group has in the past and may in the future expand its business through acquisitions. In particular, on 15 December 2005, Pyaterochka signed an agreement to acquire control of SRT – the largest franchisee of the Kopeika retail chain in Moscow and the greater Moscow area with a total of 25 stores – for a consideration of US\$90 million including US\$7 million of assumed debt. The pursuit of an acquisition strategy entails certain risks, including failing to identify suitable acquisition targets and/or failing to conduct appropriate due diligence on their operations and/or financial condition; overvaluing and paying a consideration greater than the market

value of acquisition targets; incurring significantly higher than anticipated financing-related risks and operating expenses; failing to assimilate and integrate the operations and personnel of acquired businesses; failing to install and integrate all necessary systems and controls; losing customers; entering markets in which the Enlarged Group has no or limited experience and/or where there may be limited access to requisite logistics and distribution facilities and arrangements; and experiencing the disruption of ongoing business and the strain of the Enlarged Group's management resources. If any such risks occur, this could have a material adverse effect on the business, financial condition and operating results of the Enlarged Group.

In addition, the Enlarged Group may acquire companies or groups of companies, which have minority shareholders who remain as shareholders after the acquisition (such as is the case with SRT). Minority shareholders have certain rights under Russian law, such as the ability to block resolutions of the company's general shareholder meeting where such resolution requires unanimous or qualified majority voting. Minority shareholders may also be required to approve resolutions relating to interested-party transactions as uninterested shareholders. There can be no assurances that minority shareholders in the Enlarged Group will approve such transactions or that minority shareholders in the Enlarged Group will not dispute other transactions. Any such action by the minority shareholders may have a material adverse effect on the business of the Enlarged Group.

Failure to generate or raise sufficient capital may hamper the Enlarged Group's expansion strategy

Implementation of the Enlarged Group's growth strategy and current expansion commitments may require significant capital expenditure. There can be no assurance that the cashflow from the Enlarged Group's operations and/or borrowings from financial institutions or funding from capital markets sources will be sufficient to fund its planned expenditure. Covenants in the Enlarged Group's existing financing arrangements may restrict the Enlarged Group's ability to raise additional debt funding. If the Enlarged Group is not successful in generating sufficient cashflow or obtaining sufficient capital to fund its planned expenditure, it may need to curtail or discontinue its expansion, which could have a material adverse effect on the Enlarged Group's future development.

Rapid growth and expansion may put strain on the Enlarged Group's managerial, financial and operational resources, restricting its ability to expand its operations successfully

The Enlarged Group's businesses have been expanding rapidly and are expected to continue to do so for the foreseeable future. Management of such growth increases the operating complexity of the Enlarged Group's business and may place a significant strain on its managerial, financial and operational resources. To ensure operating efficiency throughout such growth will require, among other things, continued development of financial, operational and management systems, increased marketing activities and hiring and training of new personnel (including management personnel). The Enlarged Group will also need to maintain close coordination among its logistical, technical, accounting, finance, marketing and sales personnel. If it is unable to achieve any of these objectives, the Enlarged Group's business, financial condition and operating results could be materially adversely affected.

In addition, the Enlarged Group may encounter difficulties in the ongoing process of implementing and enhancing its management information system to support its strategic growth. If the Enlarged Group is unable to maintain an adequate management information system, financial reporting function and system of internal controls, its business, financial condition and operating results may be adversely affected.

(c) Risks relating to the Enlarged Group's real estate

Failure to acquire rights to appropriate real estate on commercially acceptable terms, protect the Enlarged Group's real property rights or build and develop new stores on newly acquired sites could have a material adverse effect on the Enlarged Group's business, financial condition and operating results

The Enlarged Group's ability to open new stores is heavily dependent on identifying and leasing and/or purchasing properties that are suitable for its needs on commercially reasonable terms. The market for property in large metropolitan areas in Russia is highly competitive and, when economic conditions are favourable, competition for, and therefore the cost of, high-quality sites may increase. If the Enlarged Group fails to identify and secure sites on a timely basis for any reason, including competition from other companies seeking similar

sites, its anticipated growth may be adversely affected. Even if the Enlarged Group procures the rights to suitable sites, it may experience difficulty or delay in obtaining approvals from the various regional authorities required to undertake construction and to secure the Enlarged Group's rights to the use of stores or to refit or refurbish those stores. Consequently, there can be no assurance that the Enlarged Group will successfully identify, lease and/or purchase suitable properties on acceptable terms when required. Such failures could have a material adverse effect on its business, financial condition and operating results.

Failure to renew store leases on acceptable terms or at all as they expire may have a material adverse effect on the Enlarged Group's business, financial condition and operating results

There can be no assurance that the Enlarged Group will continue to be able to renew its store leases on acceptable terms, or at all, as they expire. If the Enlarged Group is unable to renew the leases for its store locations as they expire, or lease other favourable locations on acceptable terms, or if the Enlarged Group's existing leases are terminated for any reason (including in connection with a landlord's loss of its ownership rights to such sites), or if their terms are revised to the Enlarged Group's detriment, such failures could have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

The shortage of high quality contractors may hamper the Enlarged Group's development plans

The Enlarged Group's ability to build and develop new purpose-built stores is of key importance for its strategy and commercial success. In the markets in which the Enlarged Group operates, there is a shortage of high quality contractors able to build new stores in a timely fashion and to the Enlarged Group's standardised specifications. There can be no assurance that the Enlarged Group will in the future be able to assemble a team of appropriately skilled contractors to enable it to build and open new stores in a timely manner. Any such failure to build and develop new stores in a timely manner could have a material adverse effect on the Enlarged Group's ability to achieve its growth strategy, and accordingly on its business, financial condition and operating results.

The lack of reliable publicly available data on the real estate market in Russia makes it difficult to value the Enlarged Group's real estate properties

There is a limited amount of reliable publicly available data and research relating to the real estate market in Russia. Recently, a number of organisations have begun to publish statistical and other research data with respect to the Russian real estate markets. However, such data is generally narrower in scope and less consistent than data relating to real estate markets in other industrialised countries. This lack of data makes it difficult to assess market values and rental values of real estate in Russia. There can be no assurance that the values ascribed to the Enlarged Group's properties reflect their actual market value.

Successful challenges to the Enlarged Group's ownership interests or lease rights in land or delays or cancellation of the Enlarged Group's construction projects could have a material adverse effect on the Enlarged Group's business, financial condition and operating results

The Enlarged Group's business includes the acquisition of ownership or lease interests in land plots and buildings with a view to further development or re-development. In addition, the Enlarged Group owns or leases buildings in which its businesses are located. Russian land and property legislation is complicated and often ambiguous and/or contradictory at the federal and regional levels. In particular, it is not always clear which state bodies are authorised to enter into land leases with respect to particular land plots, construction approval procedures are complicated and prone to challenge or reversal, and construction and environmental rules often contain requirements that are impossible to comply with fully in practice. As a result, the Enlarged Group's ownership of and/or lease rights to land and buildings may be challenged by government authorities or third parties, and its construction projects may be delayed or cancelled.

Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate acting fraudulently or otherwise did not have the right to dispose of such real estate, breach of internal corporate approval requirements by a counterparty and failure to register the transfer of title in the unified state register. As a result, defects in transactions with respect to real estate may lead to the invalidation of such transactions with respect to the particular real estate, which may affect the Enlarged Group's title or lease rights to such real estate.

Further, under Russian law, certain encumbrances over real estate (including leases of less than one year and free of charge use agreements) do not need to be registered in the unified state register in order to encumber validly the property. There is, therefore, a risk that third parties may successfully register or claim existence of encumbrances (of which the Enlarged Group had no prior knowledge) over real estate owned or leased by the Enlarged Group at any point in time.

(d) Risks relating to the Enlarged Group's franchising activities

Failure to identify suitable franchising opportunities or underperformance by franchisees may adversely affect the Enlarged Group's expansion plans

The Enlarged Group's expansion plans in the regions outside of the Moscow and St. Petersburg areas depend in part on its ability to identify suitable franchising opportunities and the commercial viability of franchise stores. There can be no assurance that suitable franchisees will be found or that they will be successful in operating stores under the Enlarged Group's brands. If the Enlarged Group is unable to expand its franchise chain as planned, its strategic expansion plans may be adversely affected which would significantly reduce its competitive position in the markets in which it operates. Competition may also reduce the number of suitable franchise opportunities and increase the bargaining power of prospective franchisees. There are also risks that significant franchisees or groups of franchisees may have interests that conflict, or are not aligned, with those of the Enlarged Group. There can be no assurance that the Enlarged Group will be able to identify, retain or add franchisees to its operations. Further, changes in legislation or regulatory changes may be implemented that have the effect of favouring franchisees relative to brand owners such as the Enlarged Group.

The management of the Company must rely on results reported by franchisees when assessing the performance of the franchise stores

Franchise stores' sales figures are reported to the Pyaterochka Group and to the Perekrestok Group by franchisees. There can be no assurance that such results are accurate, complete or up to date. The management of the Company must rely on the results reported by franchisees when assessing the financial performance of the franchise stores and the success of the Enlarged Group's franchising programme. Consequently, any inaccuracies in the information reported by franchisees may distort the financial projections for the Enlarged Group and have a material adverse effect on its business, financial condition and operating results.

The Enlarged Group's expansion strategy depends in part on its ability to buy out existing franchisees

It is anticipated that some of the Enlarged Group's growth will arise from its ability to purchase a proportion of the equity in or assets of its franchisees operating in certain territories covered by existing franchise agreements and subsequently redefine those territories and enter into franchise agreements with additional franchise partners. The Pyaterochka Group has previously entered into call options and partnership agreements with some of Pyaterochka's franchisees to acquire equity in those franchisees. The status of options under Russian law is not clear and the agreements may not be legally binding on the franchisees or enforceable by the Pyaterochka Group. There can be no guarantee that the Enlarged Group will be able to reach agreement with the remaining franchisees that have been identified as suitable for such a purchase or that the relevant franchisees will perform their obligations under any such agreement. The inability of the Enlarged Group to purchase equity interests from its franchisees would have a negative impact on the expansion strategy of the Enlarged Group.

The Enlarged Group's ability to expand into territories where franchisees operate may be affected by the terms of franchise agreements and commercial considerations

Franchise agreements may restrict the Enlarged Group's ability to expand into territories that have been granted exclusively to franchisees. In addition, commercial considerations may make such expansion less viable in territories where franchisees operate.

Varying service levels and improper management of franchise stores may adversely affect the consumer image of the Enlarged Group's brands and/or the Enlarged Group's business performance

The Enlarged Group entrusts the management of each franchise store to franchisees. Differing levels of quality or service across each regional franchise store network or improper management by any of the franchisees could compromise the consumer image of the Enlarged Group, the value of its brand and adversely affect its business, financial condition and operating results.

In addition, there can be no assurance that the Enlarged Group's franchisees will not breach their contractual obligations to the Enlarged Group or will not commit other acts or omissions causing damage to the commercial interests of the Enlarged Group, whether willingly or otherwise. Such breaches, acts or omissions by the Enlarged Group's franchisees could have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

(e) Other risks relating to the Enlarged Group's business

The Enlarged Group has engaged and may continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than could be obtained in arm's-length transactions

The Pyaterochka Group and the Perekrestok Group have both engaged in transactions with related parties and the Enlarged Group may continue to do so. For example, the Pyaterochka Group has engaged in transactions with companies controlled by and/or related to certain members of the Board of Supervisory Directors, including equity purchases and sales, services contracts and financing arrangements. See "Major Shareholders and Related Party Transactions" in Part VIII of this document and, in particular, "Related party transactions relating to the Carousel Project". The Carousel branded chain of hypermarkets was established by the Pyaterochka Group in 2003 and the assets and liabilities of this business were transferred to a group of companies controlled by the Founding Shareholders. Carousel operates in the hypermarket segment which is also operated in by the Perekrestok Group (in 2004 hypermarkets accounted for 17.7 per cent of Perekrestok's revenue) and therefore a company owned by significant minority shareholders in Pyaterochka and related to members of the Board of Supervisory Directors will be in competition with the business of the Enlarged Group following completion of the Perekrestok Transaction. The Perekrestok Group has also, for example, engaged in related party transactions with members of the Alfa Group and members of the Alfa Group will remain related parties to Perekrestok following completion of the Perekrestok Transaction and Pyaterochka Transaction.

Conflicts of interest may arise between such companies and the Enlarged Group, potentially resulting in the conclusion of transactions on terms not determined by market forces and currently the Pyaterochka Group systems may not allow the Pyaterochka Group to determine whether its business partners are related parties. Conflicts of interest that may materially and adversely affect the Enlarged Group's business, financial condition and operating results could deter prospective investors from investing in Pyaterochka which could adversely impact Pyaterochka and/or the market price of the GDRs.

Any related party transactions which are carried on a non arm's length basis may expose the Enlarged Group to business and financial risks such as increased competition from related parties, transfer pricing adjustments of VAT and profits tax liabilities and potential taxable benefits for the recipients of low-rate interest of intra-group loans, which could have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

Pyaterochka and Perekrestok's brand names and other intellectual property are critical to the Enlarged Group's business and substantial erosion in the value of the brand names due to product recalls, customer complaints, adverse publicity, legal action or other factors would have a material adverse effect on the Enlarged Group's business, financial condition and operating results

As the Enlarged Group's success depends to a significant extent upon brand recognition and the goodwill associated with it, the Pyaterochka brand name and trademark and the Perekrestok brand name and trademark are key assets of the Enlarged Group's business. Maintaining the reputation of the Enlarged Group's brand names and trademarks is critical to the Enlarged Group's success. Substantial erosion in the value of the Enlarged Group's brand names due to product recalls, customer complaints, adverse publicity, legal action or other factors could have a material adverse effect on the Enlarged Group's business, financial condition and operating results. There can be no assurance that the Enlarged Group's strategy and its implementation will maintain the value of these brands. See also "Other risks relating to the Enlarged Group's business – The sale of food products exposes the Enlarged Group to the risk of product liability claims and adverse publicity".

Russia and the other countries in which the Enlarged Group operates generally offer a lower level of intellectual property rights enforcement than countries in Europe and North America. The Enlarged Group believes it has taken appropriate steps to protect its trademarks and other intellectual property rights but cannot be certain that

such steps will be sufficient or that third parties will not infringe or challenge such rights. If the Enlarged Group is unable to protect such intellectual rights against infringement, it could have a material adverse effect on its business, financial conditions and operating results. Delays in registration of trademarks and defects in agreements pursuant to which trademarks were assigned to the Enlarged Group may also increase the risk of infringement of the Enlarged Group's intellectual rights and have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

Reduction in supplier discounts could affect the Enlarged Group's financial condition and operating results.

In the year ended 31 December 2004, the Pyaterochka Group obtained discounts from its suppliers equal to US\$42.4 million (approximately 4.9 per cent of cost of sales). The level of discounts from the Pyaterochka Group's suppliers in the year ended 31 December 2005 increased to US\$84.0 million (approximately 8.2 per cent of cost of sales), due to the increased volume of the Pyaterochka Group's purchases from suppliers and its improved position in negotiation with suppliers. There can be no assurance that the Enlarged Group will be able to maintain the same level of supplier discounts in future and any failure to do so, could have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

The sale of food products exposes the Enlarged Group to the risk of product liability claims and adverse publicity

The packaging, marketing, distribution and sale of food products entail an inherent risk of contamination or deterioration, which could potentially lead to product liability, product recall and resultant adverse publicity. Such products may contain contaminants that could, in certain cases, cause illness, injury or death to consumers. Even an inadvertent shipment of contaminated products may lead to an increased risk of exposure to product liability claims. There can be no assurance that product liability claims will not be asserted against the Enlarged Group in the future or that it will not be obligated to undertake significant product recalls. In Perecrestok's case this risk is increased as it manufactures its own private label products. If a material product liability claim is successful, the Enlarged Group's insurance may not be adequate to cover all liabilities it may incur, and the Enlarged Group may not be able to continue to maintain such insurance, or obtain comparable insurance at a reasonable cost, if at all. If the Enlarged Group does not have adequate insurance or contractual indemnification available, product liability claims relating to defective products could have a material adverse effect on the Enlarged Group's ability to market successfully its products and on its business, financial condition and operating results.

Even if a product liability claim is not successful or is not fully pursued, the negative publicity surrounding any alleged contamination or deterioration of the products sold by the Enlarged Group could have a material adverse effect on the Enlarged Group's goodwill, brand, image and profitability.

The Enlarged Group's insurance policies may be insufficient to cover losses arising as a result of business interruption, damage to its property or third-party liabilities.

The Enlarged Group has insurance policies covering its real estate, inventory, equipment and vehicles. Some companies in the Enlarged Group also have business interruption and civil liability insurance protection. However, there can be no assurance that such insurance policies will be sufficient to cover in full any losses arising as a result of a business interruption or damage to the Enlarged Group's property as a result of fire, explosion, flood or other circumstances. In addition, some companies in the Enlarged Group maintain third-party liability insurance where, and only to the extent that, it is required by Russian law. There can be no assurance that if the Enlarged Group suffers material losses or incurs a significant liability the Enlarged Group's insurance policies will be sufficient to cover such losses or liability. If the Enlarged Group's insurance policies are insufficient to cover such losses or liability, this may materially and adversely affect the Enlarged Group's business, financial condition and operating results.

Expiry of the Enlarged Group's insurance policies may be an event of default under financing arrangements.

The Pyaterochka Group is required under its financial arrangements and financial lease agreements to enter into certain insurance policies. Expiry or termination of such insurance policies without replacement of those policies may be considered an event of default under such financing arrangements and financial lease agreements which could lead to a material adverse effect on the Enlarged Group's business, financial condition and operating results.

The Enlarged Group's competitive position and future prospects depend on its directors' and senior management's experience and expertise

The Enlarged Group's ability to maintain its competitive position and to implement its business strategy is dependent, to a large extent, on the services of its directors and senior management, particularly Mr. Rogachev, Mr. Girda, Ms. Franous, Mr. Vidiaev, Mr. Vysotsky, Ms. Li, Mr. Khasis, Mr. Podolsky, Mr. Kosiyanenko, Mr. Musial, Mr. Rybakov, Mr. Sotnikov, Mr. Krajewski, Mr. Pleskacza, Mr. Lewandowski, Mr. Kuzmenko and Ms. Stolypina. There can be no assurance that such key personnel will remain with the Enlarged Group. The loss of or diminution in the services of one or more of the Enlarged Group's senior management team or its inability to attract, retain and maintain additional senior management personnel could have a material adverse effect on the Enlarged Group's business, financial condition and operating results. The Enlarged Group is not insured against damage that may be incurred in case of loss or dismissal of its key specialists or managers.

The Enlarged Group's success depends on its ability to continue to attract, retain and motivate qualified personnel

The Enlarged Group's future success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. A failure by the Enlarged Group to successfully manage its personnel needs could have a material adverse effect on its business, financial condition and operating results.

Unionisation of the Enlarged Group's workforce could affect its financial condition and operating results

Currently, the majority of Enlarged Group's employees do not belong to any trade unions. If a substantial part of the Enlarged Group's workforce were to become members of trade unions, this could lead to a substantial increase in the Enlarged Group's payroll costs and/or labour conflicts, which would have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

Arrangements with staff could affect the Enlarged Group's financial condition and operating results.

The Enlarged Group has structured its employment arrangements to benefit from certain tax allowances (including a decreased rate of unified social tax) and tax exemptions, which allows members of the Enlarged Group to benefit from reduced staff costs. If such arrangements were to be successfully challenged, the Enlarged Group may be subject to financial penalties. In addition, the Enlarged Group would be obliged to restructure employment arrangements with many of its employees. This may create logistical difficulties and have the effect of increasing the Enlarged Group's staff costs which could have a material adverse effect on the Enlarged Group's business and financial condition.

Systems failures and delays could harm the Enlarged Group's business

The Enlarged Group manages its inventory and logistical operations through a variety of electronic media, including an intranet, networked personal computers and automated inventory management systems. These operations are heavily dependent on the integrity of the electronic systems supporting them. The Enlarged Group's systems and operations are vulnerable to damage or interruption from human error, data inconsistency, natural disasters, power loss, computer viruses, intentional acts of vandalism, breach of security and similar events. Although the Enlarged Group has in place contingency plans to deal with such events, there can be no assurance that the Enlarged Group's systems will not suffer failures or delays in the future causing significant losses to its business. Equipment breakdowns may result in significant productivity losses and potentially full inoperability of the stores trading software for an unspecified time (with the exception of cash registers). Significant systems failures and delays could cause unanticipated disruptions in service, decreased customer service and customer satisfaction and harm to the Enlarged Group's reputation, which could result in loss of customers, increased operating expenses and financial losses.

Software license arrangements

Some of the computer software used by the Pyaterochka Group and the Perekrestok Group for the operation of cash registers in stores and supermarkets may not be properly licensed by the Pyaterochka Group and the Perekrestok Group, respectively. Although the management of both the Pyaterochka Group and Perekrestok

Group are in discussions with the owners of the relevant software in order to formalise licensing arrangements, there is a risk that the owners of the software could require the Enlarged Group to cease using the software or impose financial penalties for failure to hold the appropriate licenses, which may have a material adverse effect on the Enlarged Group's business, financial condition and operating results.

The replacement of Perekrestok's supermarket trading system will be a complex and costly procedure.

Given the Perekrestok Group's estimated growth rate, the existing in-house developed supermarket trading system (Numero Quattro) may suffer a severe loss of productivity within the next two years unless it is replaced. It has been decided to replace Numero Quattro by packaged business applications and the software implementation project will start in 2006. Until completion of the project all IT activities will be supported by existing business software. The implementation of the project will be a complex and time consuming procedure and could disrupt the existing operations of the Perekrestok Group.

Recent transactions of the Pyaterochka Group may give rise to significant additional tax liability in the Netherlands

In March 2005, the Pyaterochka Group sold shares in certain Russian companies to another group of companies controlled by the Founding Shareholders for nominal consideration, which had the economic effect of a dividend in kind and decreased shareholders' equity by the equivalent of US\$59.6 million (see "Major Shareholders and Related Party Transactions – Related Party Transactions – Related party transactions relating to the Carousel project"). Under the tax laws of The Netherlands, such sale may qualify as a taxable event for the purposes of Dutch dividend withholding tax. Such tax, if levied in connection with such an event, would be calculated at a rate of up to 8.3 per cent. on the aggregate fair market value of the assets transferred in connection with such share sale. The Founding Shareholders have agreed jointly and severally to indemnify the Pyaterochka Group for any resulting tax liability (including any interest and penalties). However, if there is a resulting tax liability and the Founding Shareholders do not pay to the Pyaterochka Group the amount of such liability (including any interest and penalties) in breach of the indemnity that they have given, this could adversely affect the Enlarged Group's business, financial condition and operating results.

In March 2005, the Founding Shareholders transferred to the Company, as a free share premium contribution, the entire issued share capital of Speak Global. Under the Dutch tax laws the Enlarged Group's shareholding in Speak Global may be considered a "portfolio investment" for Dutch tax purposes, which would result in tax liability calculated at a rate of up to 31.5 per cent. on any increase of the fair market value ascribed by the Dutch tax authorities to the Enlarged Group's shareholding in Speak Global since the date of the contribution in the year ending 31 December 2005 or any subsequent years. Although the Company has performed its own valuation and has accrued a tax provision of US\$5.2 million, there is no certainty as to the method of valuation to be applied by the Dutch tax authorities in ascribing fair market value to the Enlarged Group's shareholding in Speak Global. If the Dutch tax authorities determine a significant increase in the fair market value of the Enlarged Group's shareholding in Speak Global in the year ending 31 December 2005 and/or any subsequent years, this could adversely affect the Enlarged Group's business, financial condition and operating results.

The Enlarged Group's exposure to several tax jurisdictions may have an adverse effect on the Enlarged Group

Although most of the Enlarged Group's operations are located in Russia, the Enlarged Group is subject to the tax laws of several jurisdictions, including the Netherlands, Russia, Cyprus, Ukraine and Gibraltar. The combined effect of the application to the Enlarged Group of the tax laws of more than one of these jurisdictions and/or their interpretation by the relevant tax authorities could, under certain circumstances, produce contradictory results (including recognition of taxable permanent establishments) and/or materially and adversely affect the Enlarged Group's business, financial condition and operating results.

(f) Risk of adverse judgment in relation to OOO "Ekonomtorg"

Former participants in OOO "Ekonomtorg" (acquired by Agro-Star and Ceizer in December 2005) have initiated court proceedings against the Inspectorate of the Tax Ministry of the Russian Federation for Leninsky area of Yekaterinburg to invalidate the Inspectorate's decision on the registration of amendments to the constitutional documents of OOO "Ekonomtorg". On 24 January 2006, the Arbitration Court of Sverdlovsky region passed a

decision in favour of one of the former participants declaring the resolution of the general meeting of participants in OOO “Ekonomtorg” of 25 May 2005 inconsistent with applicable Russian legislation and the relevant entry of the Inspectorate into the Unified State Register of Legal Entities and amendments to the foundation agreements illegal. This decision may lead to claims against Agro-Star and Ceizer which could have the result that, if the acquisition was not made in good faith, Agro-Star and Ceizer may be obliged to re-transfer their participatory shares in OOO “Ekonomtorg” to the sellers for the consideration paid. Agro-Star and Ceizer believe that the acquisition was made in good faith and that they have meritorious defences to any claim that may be brought. However, the Pyaterochka Group can give no assurances that Agro-Star and Ceizer will prevail or that they will be permitted to retain the participatory shares in OOO “Ekonomtorg”. If Agro-Star and Ceizer are required to re-transfer the participatory shares, this may in turn lead to the termination of the Urals JV Agreement (see paragraph 1.3(b) of Part XIII of this document). Both the re-transfer of the participatory shares in OOO “Ekonomtorg” and the termination of the Urals JV Agreement may materially and adversely affect the Enlarged Group’s business, financial condition and operating results.

1.3 Risks relating to Russia

(a) Political risks

Political and governmental instability in Russia could adversely affect the Enlarged Group’s business, financial condition and operating results

Since the dissolution of the Soviet Union, Russia has sought to move from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Current and future changes in the government, major policy shifts or lack of consensus between key government officials, Russia’s parliament and powerful economic groups could lead to political or governmental instability or occurrence of conflicts with powerful economic groups, which could have a material adverse effect on Pyaterochka’s business, financial condition and operating results.

The Enlarged Group is heavily dependent on its operations in Russia, and changes in the economic policies in Russia could adversely affect its business

In recent years, the political and economic situation in Russia has generally become more stable and conducive to investment. However, major policy shifts, government reshuffles and a lack of consensus among key political groups could hinder or reverse political, economic and regulatory reforms. Reform may also suffer if key government officials engage in private business while in office, particularly when these business interests are in the industry that such officials regulate. Any such deterioration of Russia’s investment climate might constrain the Enlarged Group’s financing ability in the international capital markets, limit sales in Russia, and otherwise harm its business.

Political and other conflicts create an uncertain operating environment that hinders the Enlarged Group’s long-term planning ability and could adversely affect its business and financial condition

Russia is a federation of 88 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, in the past conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts in Russia and such challenges may occur in the future. This lack of consensus hinders the Enlarged Group’s long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent the Enlarged Group from effectively and efficiently carrying out its business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases in Southern Russia, military conflict. As a result, a number of fatal terrorist attacks have been carried out in Moscow and other Russian regions. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect the Company's business, financial condition and operating results.

(b) Economic risks

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the Enlarged Group's business or financial condition

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out herein may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, emerging market companies can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt the Enlarged Group's business, which would have a material adverse effect on its financial condition and operating results.

Economic instability in Russia could adversely affect the Enlarged Group's business

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- frequent tax evasion;
- the growth of black and grey market economies;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the Central Bank stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998 as evidenced by the revocation of the banking licences of a number of Russian banks. This further impaired the ability of the

banking sector to act as a reliable and consistent source of liquidity to Russian companies, and resulted in the loss of bank deposits in some cases.

Because Russia produces and exports large quantities of oil and natural gas, the Russian economy is very vulnerable to fluctuations in the price of oil and natural gas on the world market and a decline in the price of oil and natural gas could significantly slow or disrupt the Russian economy. Therefore, there can be no assurance that recent trends in the Russian economy, such as the increase in the gross domestic product, a relatively stable Rouble and a reduced rate of inflation, will continue in future. Recent military conflicts and international terrorist activity have created significant uncertainty about the supply of oil and natural gas and delayed the expected recovery of the global economy, and such future events may continue to adversely affect the global economic environment, which could result in a decline in the demand for oil and natural gas. A strengthening of the Rouble in real terms relative to the US dollar, changes in monetary policy, inflation or other factors could adversely affect Russia's economy and the Enlarged Group's business in the future. Any such market downturn or economic slowdown could also severely limit the Enlarged Group's access to capital, also adversely affecting its business and operating results in the future.

The Russian banking system remains underdeveloped and another banking crisis could place severe liquidity constraints on the Enlarged Group's operations in Russia

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind international banking standards. Aided by inadequate supervision by the regulators, many banks do not follow existing Central Bank regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Further, in Russia, bank deposits made by corporate entities generally are not insured.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate Rouble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, in 2004 the Central Bank revoked the licenses of certain Russian banks, which resulted in market rumours about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

There are currently a limited but increasing number of sufficiently creditworthy Russian banks. The Enlarged Group reduces its risk by receiving and holding its Rouble-denominated funds in a number of Russian banks, including subsidiaries of foreign banks. Nonetheless, the Enlarged Group holds the bulk of its Rouble cash in Russian banks, including subsidiaries of foreign banks, because the Rouble is not transferable or convertible outside of Russia. There are few, if any, safe Rouble-denominated instruments in which the Enlarged Group may invest the excess Rouble cash of its Russian subsidiaries. A banking crisis or the bankruptcy or insolvency of the banks with which the Enlarged Group holds funds could result in the loss of its deposits or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on its business, financial condition and operating results.

The poor condition of Russia's physical infrastructure could disrupt normal business activity

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decades. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout Russia are poor, with more than half of all roads not meeting minimum requirements for use and safety. The federal government is

actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. Russia's poor physical infrastructure disrupts the transportation of goods and supplies and adds costs to doing business in Russia, and further deterioration in the physical infrastructure could have a material adverse effect on the Enlarged Group's business. In addition, there are a number of nuclear and other dangerous installations in Russia where safety systems to contain ecological risks may not be sufficiently effective. The occurrence of accidents in these installations, as well as the generally unfavourable ecological situation in Russia, may also have a material adverse effect on the Enlarged Group's business and operating results.

Uncertainties about the reliability of statistical information make business planning inherently uncertain and may adversely affect the Enlarged Group's business and financial condition

Official data published in Russia are substantially less complete and reliable than those of countries with more developed market economies and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable. Official statistics may also be produced on different bases to those used in more developed countries. Due to the unavailability of alternative, reliable sources of country-specific statistics, the Enlarged Group necessarily relies to some extent on official data in its business planning. In addition, any discussion of matters relating to Russia herein is subject to uncertainty due to concerns about the completeness and reliability of available official and public information. Therefore, assumptions made by the Enlarged Group in its business plans may prove to be incorrect, which could have a material adverse effect on its business and financial condition.

Currency and exchange rate fluctuations may adversely affect the Enlarged Group's business and financial condition and the price and liquidity of GDRs

A decline in the value of the Rouble against the US dollar may result in a decrease in the Company's net profit and shareholders' equity when expressed in US dollars and an increase in its US dollar costs in Rouble terms. The market price and liquidity of the GDRs could be adversely affected by such a decline. See Part XII "Exchange Rate Information".

(c) Social risks

Crime and corruption could disrupt the Enlarged Group's ability to conduct its business and could materially adversely affect its financial condition and operating results

The political and economic changes in Russia since the early 1990s have resulted in significant dislocations of authority. The local and international press have reported that significant organised criminal activity has arisen, particularly in large metropolitan centres. Property crime in large cities has increased substantially. In addition, the local and international press have reported high levels of official corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Additionally, published reports have indicated that a significant number of Russian media outlets regularly publish disparaging articles in return for payment. The depredations of organised or other crime or demands of corrupt officials could in the future disrupt the Enlarged Group's ability to conduct its business effectively and could thus materially and adversely affect its financial condition and operating results.

Social instability could increase nationalism or violence, materially adversely affecting the Enlarged Group's ability to conduct its business

The failure of salaries to be paid in full on a regular basis in Russia and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living in Russia have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased nationalism, restrictions on foreign involvement in the Russian economy and increased violence. Any of these or similar consequences of social unrest could restrict the Enlarged Group's operations and lead to the loss of revenue, materially adversely affecting its business and financial condition.

(d) Legislative and legal risks

Certain characteristics of the Russian legal system and Russian legislation could have a material adverse effect on the Enlarged Group's business and financial condition and the value of the GDRs

Russia is still developing the legal framework required to support a market economy. Risks associated with the Russian legal system include:

- inconsistencies between (i) federal laws; (ii) decrees, orders and regulations issued by the president, the government and federal ministries; and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting Russian legislation;
- a lack of judicial independence from political, social and commercial forces;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation and complex commercial arrangements;
- a high degree of discretion on the part of government authorities;
- bankruptcy procedures that are not well developed and are subject to abuse; and
- a lack of binding judicial precedents.

Moreover, the regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary.

Russian corporate and securities rules and regulations can change rapidly, which may adversely affect the Enlarged Group's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in certain other areas of corporate and security laws and regulations result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether, or how, regulations, decisions and letters issued by the various regulatory authorities apply to the Enlarged Group. As a result, the Enlarged Group may be subject to fines or other enforcement measures despite its best efforts at compliance.

Additionally, several fundamental laws have only recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the scope, content and pace of economic and political reforms has resulted in ambiguities and inconsistencies in the overall Russian legal system. Many new laws remain untested. In addition, Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect the Enlarged Group's ability to enforce its legal rights, including rights under the Enlarged Group's contracts, or to defend the Enlarged Group against claims by others.

Legal and regulatory burdens may adversely affect the Enlarged Group's financial condition and operating results and its ability to maintain or expand its operations

The Enlarged Group's operations and properties are subject to regulation by various government entities and agencies, in connection with obtaining and renewing various licenses and permits and with respect to various quality, health and safety, packaging, labelling and distribution standards. Russia is in a state of structural, economic and political transition and the regulatory regimes applicable to the Enlarged Group's operations are still developing. Many regulations applicable to the Enlarged Group have only recently been enacted and there is uncertainty regarding their application and enforcement. Regulatory authorities often have little experience in analysing regulatory issues arising from commercial transactions and exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards.

Compliance with the requirements imposed by regulatory authorities may be costly and time consuming and may result in delays in the commencement or continuation of operations. Regulatory uncertainty may make it difficult for the Enlarged Group to plan or conduct its business. Failure to obtain necessary approvals or licences or to

comply fully with applicable regulations could delay the Enlarged Group's expansion plans, require it to incur additional unanticipated expenditures or result in the imposition of sanctions, including civil and administrative penalties applicable to the Enlarged Group and criminal and administrative penalties applicable to its officers and/or requirements that the Enlarged Group cease certain of its business activities. No assurance can be given that, in the future, the Enlarged Group will continue to hold all material licenses necessary for its existing operations or to obtain all necessary approvals and licenses required in connection with its expansion plans. Any failure to obtain such approvals or licenses may have a material adverse effect on the Enlarged Group's business and financial condition.

One or more of the Enlarged Group's subsidiaries may be forced into liquidation due to negative net assets or on the basis of other formal non-compliance with certain requirements of Russian law, which could materially adversely affect the Enlarged Group's business, financial condition and operating results

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards ("RAS"), as at the end of the second or any subsequent year of a company's operation, can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities. Numerous Russian companies have negative net assets due to very low historical asset values reflected on their RAS balance sheets; however, their solvency, i.e., their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. In a highly publicised case a few years ago, a court ordered the liquidation of a company with negative net assets, although it was otherwise solvent. Some Russian courts in deciding whether or not to order the liquidation of a company have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a recent decision of the Constitutional Court of the Russian Federation that held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an adequate sanction for such violations. Although, as happens from time to time in Russia mostly due to ambiguities and inconsistencies of applicable provisions of Russian law, some of the Enlarged Group's subsidiaries might have failed from time to time to comply fully with all the applicable legal requirements (for example, unduly executed capital contributions in the course of foundation, formal deficiencies in the reorganisation process, or negative net assets under RAS), the management of the Company believes that none of the Enlarged Group's subsidiaries should be subject to liquidation on such grounds and none of the possible violations has caused any damage to anyone or has had any other negative consequences; in addition, the Enlarged Group's subsidiaries' financial conditions have been satisfactory at all times, and they have been capable of meeting all of their respective tax and other third-party obligations in a timely fashion. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, the Enlarged Group would be forced to reorganise the operations it currently conducts through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect the Enlarged Group's business, financial condition and operating results.

Difficulty in ascertaining the validity and enforceability of title to land in Russia and the extent to which it is encumbered may have a material adverse effect on the Enlarged Group's operations

Until the beginning of the 1990s, all land in Russia was owned by the State. After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continuously over the following years – more than one hundred federal laws, presidential decrees and governmental resolutions were issued. Almost all Russian regions passed their own real estate legislation. Until recently, the land legislation in Russia was unsystematic and contradictory. In many instances, there was no certainty regarding which municipal, regional or federal government body, had power to sell, lease or otherwise dispose of land.

In 2001, the Russian Civil Code (the "Civil Code") was amended and the new Russian Land Code (the "Land Code") as well as a number of other federal laws regulating land use and ownership were enacted. Nevertheless,

the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. These uncertainties may have a material adverse effect on the Enlarged Group's operations.

Non-compliance with governmental and administrative real estate regulations in Russia could materially affect the Enlarged Group's operations and business prospects

In order to use and develop land in Russia, approvals and consents of various federal, regional or local governmental authorities, such as the various environmental, sanitation and epidemiological control authorities, are required. The approval and consent requirements vary from locality to locality; they are numerous, sometimes contradictory and are subject to change without public notice and are occasionally applied retroactively. The enforcement of such requirements is inconsistent and is often arbitrary and selective. Failure to obtain the required approvals and consents may lead to severe consequences to landowners and leaseholders. No assurance can be given that the Enlarged Group will at all times be in full compliance with all governmental and administrative real estate regulations in Russia. If any of the Enlarged Group's existing or prospective store sites is found not to be in compliance with all applicable regulations, the Enlarged Group may be subject to fines or penalties or its rights to such properties may be affected which could have a material adverse effect on the Enlarged Group's overall financial condition and operating results.

The judiciary's lack of independence and inexperience, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Enlarged Group from obtaining effective redress from any court or tribunal, which could have a material adverse effect on its business and financial condition

The court system in Russia is understaffed and under-funded and not immune from external influences. Judges and the courts in Russia are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. The Enlarged Group may be subject to such claims and may not be able to receive a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience of the courts in Russia in enforcing these provisions and due to potential political changes, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Enlarged Group's entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on the Enlarged Group.

Unlawful, selective or arbitrary government action may have an adverse effect on the Enlarged Group's business and financial condition

Regulatory authorities have a high degree of discretion in Russia and at times appear to exercise their discretion selectively, without hearing or prior notice. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Such selective governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Unlawful, selective or arbitrary government action, if directed at the Enlarged Group, could have a material adverse effect on the Enlarged Group's business and financial condition.

If transactions of the Enlarged Group and its predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal requirements, the remedies in the event of any successful challenge could include the invalidation of such transactions or the imposition of liabilities on the Enlarged Group

The Enlarged Group, or its predecessors-in-interest at different times, took a variety of actions involving share acquisitions, charter capital increases, share issues, amendments to charter documents, reorganisations, so called

“major transactions” and “interested party transactions”, transactions with state authorities and other transactions and actions that, if successfully challenged by competent state authorities, counterparties in such transactions or shareholders of the relevant companies or their predecessors-in-interest on grounds of non-compliance with applicable legal requirements (including, without limitation, under the terms of the relevant agreements or under applicable legislation and regulations), ineffective execution of agreements, unauthorised actions by members of management and directors or invalid shareholder resolutions, could result in the invalidation of such transactions or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, the Enlarged Group may not be able to defend successfully any challenge brought against such transactions, and the invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on the Enlarged Group’s business, financial condition and operating results. See also “– Legislative and legal risks – Certain characteristics of the Russian legal system and Russian legislation could have a material adverse effect on the Enlarged Group’s business and financial condition and the value of the GDRs”.

Shareholder liability under Russian legislation could cause the Enlarged Group to become liable for the obligations of its subsidiaries

Russian law generally provides that shareholders in a Russian joint stock company or a limited liability company are not liable for the obligations of such joint stock company or, as the case may be, limited liability company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person. The person capable of determining such decisions is called an “effective parent”. The person whose decisions are capable of being so determined is called an “effective subsidiary”. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons, and
- the effective parent gives obligatory directions to the effective subsidiary.

Moreover, an effective parent is secondarily liable for an effective subsidiary’s debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent’s capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary’s losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, in the Enlarged Group’s position as an effective parent, it could be liable in some cases for the debts of its effective subsidiaries in Russia.

Characteristics of and changes in the Russian tax system could materially adversely affect the Enlarged Group’s business and financial condition

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added tax (“VAT”);
- excise taxes;
- customs duties;
- unified social tax; and
- corporate property tax.

The tax environment in Russia has historically been complicated by the fact that various authorities often issued contradictory pieces of tax legislation. Because of the political changes which have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system.

Tax reform in Russia commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (the “**Tax Code**”), which sets general taxation guidelines. Since then, Russia has been in the process

of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and corporate property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; the profits tax and mineral extraction tax chapters came into force on 1 January 2002; and the newly introduced corporate property tax chapter of the Tax Code came into force on 1 January 2004.

In practice, the Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years of their activities which immediately preceded the year in which the audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, in some instances, new tax regulations have been given retroactive effect. Recently, the Constitutional Court of Russia ruled that in certain situations VAT paid on a commercial enterprise's purchases, or input VAT, cannot be offset against VAT collected from sales to the extent that the input VAT was incurred on items purchased with borrowed funds.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of the Pyaterochka Group's and the Perekrestok Group's Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Pyaterochka Group and the Perekrestok Group respectively. In addition, payments of intercompany dividends between two Russian entities are subject to a withholding tax of 9 per cent. at the time they are paid out of profits, though this tax does not apply to dividends once they have already been taxed.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on the Enlarged Group's operations, including management resources. In addition to the Enlarged Group's substantial tax burden, these risks and uncertainties complicate its tax planning and related business decisions, potentially exposing the Enlarged Group to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could adversely affect the Enlarged Group's business, financial condition and operating results.

Methods of tax calculation utilised by the Enlarged Group could be subject to challenge

The Enlarged Group has calculated its income tax liabilities in Russia taking into account certain statutory elections (including, but not limited to, the use of a statutory simplified taxation election, see "Financial Information and Operating and Financial Reviews – Pyaterochka – Operating and Financial Review – Results of operations – Year ended 31 December 2005 compared to the years ended 31 December 2004 and 31 December 2003 – Income tax expense") and certain contractual arrangements (including, but not limited to, royalty payments for use of the Pyaterochka trademark – see "Financial Information and Operating and Financial Reviews – Pyaterochka – Operating and Financial Review – Results of Operations – Explanation of key items in the profit and loss statement – Income tax" – and the intellectual property rights of the Perekrestok Group and sale and lease-back transactions). The management of the Company and of the Perekrestok Group believes that the use of such elections and arrangements was and is in compliance with the Russian tax laws applicable at each relevant time. However, there can be no assurance that the use of such or some other measures will not be re-assessed or challenged by the Russian tax authorities. In addition, historically, the Perekrestok Group entered into various arrangements with related parties which, if successfully challenged by the Russian tax authorities, may result in additional tax and penalties becoming payable and the possibility of legal prosecution. If such re-assessment or challenge occurs, it could materially and adversely affect the Enlarged Group's business, financial condition and operating results.

The Enlarged Group may be subject to vaguely drafted Russian transfer pricing rules

Russian transfer pricing rules give Russian tax authorities the right to review, make transfer pricing adjustments and impose additional tax liabilities in respect of transactions between related entities and certain other types of transactions between independent parties (such as foreign trade transactions and transactions that have significant price fluctuations), if the transaction price deviates by more than 20 per cent. from the market price. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the prices of certain of the Enlarged Group's transactions and propose adjustments. If such price adjustments are upheld by Russian courts and implemented, the Enlarged Group's effective tax rate could increase and future financial results could be adversely affected. In addition, the Enlarged Group could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have a material adverse effect on its financial condition and operating results. See also "– Characteristics of and changes in the Russian tax system could materially adversely affect the Enlarged Group's business and financial condition".

New Russian thin capitalization rules could affect the Enlarged Group's ability to deduct interest on certain borrowings

Russian thin capitalization rules limit the amount of interest that can be deducted by a Russian company on debts payable to non-resident shareholders. Until 1 January 2006, these rules applied only to loans to a Russian company by a foreign shareholder owning directly or indirectly more than 20% of the share capital of the Russian company. However, new thin capitalization rules that came into effect on 1 January 2006 extend the rules' application to loans issued to a Russian company by another Russian company that is affiliated with the foreign shareholder as well as to loans secured by such foreign shareholder or its affiliated Russian company. It is not yet clear how these new rules will be applied in practice by the Russian tax authorities, particularly in relation to guarantees issued with respect to loans impacted by the rules.

The Enlarged Group may be affected by the new rules if any time a company receives a loan or is the beneficiary of a loan guarantee from a foreign shareholder owning directly or indirectly over 20% of the company or from a Russian affiliated company of such foreign shareholder. In this event, interest payments made by the company under such loans may be treated as dividend payments, which are not deductible for corporate income tax purposes and are subject to withholding income tax at the rates applicable to dividends, which may adversely affect the Enlarged Group's business, financial condition and operating results.

1.4 Risks relating to the Shares and GDRs

The market for the GDRs is relatively illiquid

As a result of the Perekrestok Transaction and of the Pyaterochka Transaction, approximately 30 per cent. of the GDRs will be in public hands. As a result of this reduction in liquidity, the price of the GDRs may be more volatile and it may be more difficult to complete a buy or sell order for the GDRs.

The Company's ability to pay dividends and to service its debt obligations depends primarily upon receipt of sufficient funds from its subsidiaries

Because the Company is the holding company of the Enlarged Group, its ability to pay dividends depends primarily upon receipt of sufficient funds from its subsidiaries. Furthermore, the payment of dividends by its subsidiaries and/or the ability of the Company to repatriate such dividends from Russia may, in certain instances, be subject to statutory restrictions, and retained earning criteria, and is contingent upon the earnings and cash flow of, and committed borrowings by, those subsidiaries. The inability on the part of some of the Enlarged Group's subsidiaries to pay dividends would impact the amount of funds available to the Company to pay dividends and service the Company's debt obligations. In addition, the Company's principal revenue is to be generated by its subsidiaries in Roubles, which the management of the Company intends to convert into US dollars or other foreign currencies. No assurance may be given that it will succeed in converting such revenue, or, if able to do so, that it will be able to convert at favourable exchange rates.

Substantial market sales of GDRs may affect the market price of the GDRs

Sales of a substantial number of GDRs in the public markets following the Perekrestok Transaction and the Pyaterochka Transaction, or the perception that these sales may occur, could have a material adverse effect on the price of the GDRs or could impair the Company's ability to obtain further capital through an offering of equity securities.

Pre-emptive rights for US holders may not be available

In the case of an increase in the Company's share capital for cash, the existing holders of Pyaterochka Shares represented by GDRs would generally be entitled to pre-emption rights pursuant to Dutch law and the Articles, unless such rights are restricted or excluded by a resolution of the general meeting of Shareholders as described in paragraph 1.2(d) of Part XIII of this document. Even if pre-emption rights are not restricted or excluded, US holders of GDRs may not be able to exercise pre-emptive rights for the Pyaterochka Shares represented by GDRs unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirement thereunder is available. The Company is unlikely to file any such registration statement, and no assurance can be given that an exemption from the registration requirements of the Securities Act would be available to enable such US holders to exercise such pre-emptive rights or, if available, that the Company will utilise any such exemptions.

UK and Dutch law anti-takeover protection may not be available

The Dutch public offer rules will not apply to any public offer for the GDRs or the Pyaterochka Shares, unless the Pyaterochka Shares or GDRs are regularly traded in The Netherlands. In addition, as the Company is not incorporated in England and Wales, the City Code on Takeovers and Mergers does not apply to the Company.

The Pyaterochka Shares underlying the GDRs are not listed and may be illiquid

Unlike many other global depositary receipts offerings traded on the London Stock Exchange, the Pyaterochka Shares are neither listed nor traded on any stock exchange and the Company does not intend to apply for the listing or admission to trading of the Pyaterochka Shares on any stock exchange. As a result, a withdrawal of Pyaterochka Shares by a holder of GDRs, whether by election or due to certain events described under "Terms and Conditions" of the GDRs (see Part XIV), will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those Pyaterochka Shares may be discounted as a result of such withdrawal.

A holder of GDRs may have limited recourse against the Company's assets and the Company's directors and executive officers because the Company generally conducts its operations outside the United States, the United Kingdom and The Netherlands and all of the Company's directors and executive officers reside and the Company's assets are located outside the United States, the United Kingdom and The Netherlands

The Company's presence outside the United States, the United Kingdom and The Netherlands may limit the legal recourse of a holder of GDRs against the Company. Although the Company is incorporated under the laws of The Netherlands, all of the members of the Board of Supervisory Directors and executive officers reside outside the United States, the United Kingdom and The Netherlands, principally in Russia. All or a substantial portion of the Company's assets and the assets of the directors and executive officers are located outside the United States, the United Kingdom and The Netherlands, principally in Russia. As a result, investors may not be able to effect service of process within the United States or the United Kingdom upon the Company or the directors and executive officers or to enforce US or UK court judgments obtained against the Company or the directors and executive officers in jurisdictions outside the United States, the United Kingdom and The Netherlands, including actions under the civil liability provisions of the US securities laws. In addition, it may be difficult for a holder of GDRs to enforce, in original actions brought in courts in jurisdictions outside the United States, the United Kingdom and The Netherlands, liabilities predicated upon US or UK securities laws.

There is no treaty between the United States and Russia or the United Kingdom and Russia or The Netherlands and Russia providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters. These limitations may deprive a holder of GDRs of effective legal recourse for claims related to their investment in the GDRs. Russia, the United Kingdom and The Netherlands are party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be

difficult to enforce arbitral awards in Russia due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts' inability to enforce such orders and corruption.

Further Pyaterochka Share issues made as part of the Enlarged Group's acquisition strategy may result in further dilution to holders of Pyaterochka Shares or GDRs

As part of its acquisition strategy the Company may issue additional Pyaterochka Shares or other securities convertible or exchangeable into Pyaterochka Shares, as consideration in any relevant acquisitions. Any such issues could result in effective dilution to holders of Pyaterochka Shares or GDRs and/or adversely affect the market price of the GDRs.

1.5 Other risks

Information regarding the Enlarged Group's competitors, its franchisees' financial information and data from the Russian government agencies has not been independently verified

Substantially all the information contained in this document concerning the Enlarged Group's competitors has been derived from publicly available information, including press releases, and the accuracy of this information has not undergone independent verification. Substantially all the financial information in this document concerning the Enlarged Group's franchisees has been provided by the relevant franchisees, and the accuracy of this information has not undergone independent verification.

In addition, some of the information contained in this document has been derived from official data of Russian government agencies. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those with more developed market economies. Official statistics may also be produced on different bases than those used in more developed market economies. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The Pyaterochka Agreement (see Part X) contains undertakings of the New Shareholders and the Founding Shareholders to procure that the Company will do or will not do certain things. This may restrict the Enlarged Group's access to finance and limits its freedom of action in a number of respects.

Pursuant to the Pyaterochka Agreement the New Shareholders have agreed to procure that the Company will or will not do certain things following closing, including that the Company will perform its obligations under the Carousel Agreement, and perform its obligations under, adhere to and not change the terms of the Option Plan. In addition, for 18 months from Closing, the Founding Shareholders and the New Shareholders have agreed to procure that there are no changes in the share capital of the Company without the consent of both parties, save for any change pursuant to the Option Plan and save that the New Shareholders have the right to procure that Pyaterochka Shares or GDRs are issued to fund capital expenditure of up to US\$200 million from 1 June 2007 until eighteen months after Closing (to the extent such Pyaterochka Shares or GDRs are not issued at a discount to the volume weighted average closing price of the GDRs on the London Stock Exchange over the two months preceding such issue). Further, under the Pyaterochka Agreement the parties have agreed that the Founding Shareholders will have right of first refusal if the Company proposes to grant a lease, sub-lease or licence over its retail space, provided that the Founding Shareholders do not use such space for the sale of food or drink. As a result, there may be conflict between the obligations of the New Shareholders and the Founding Shareholders under the Pyaterochka Agreement and the interests of the Company as a whole. In addition, the obligations of the New Shareholders under the Pyaterochka Agreement may restrict the Enlarged Group's access to finance and limit its freedom in a number of respects.

The New Shareholders may take actions that are not in line with, or may conflict with, Pyaterochka's minority Shareholders' or GDR Holders' best interests.

The New Shareholders are expected to control 54 per cent. of the Pyaterochka Shares on completion of the Pyaterochka Transaction and the Perekrestok Transaction. Therefore, the New Shareholders are expected to be

able to influence the Enlarged Group's business through their ability to control actions which require majority shareholders' approval and appointing nominees to Pyaterochka's Board of Supervisory Directors and Management Board. The New Shareholders are not obliged to provide Pyaterochka with financial support or to exercise their rights as Shareholder in the best interests of Pyaterochka or in the best interests of the minority Shareholders (or GDR Holders). In addition, the New Shareholders may engage in activities that conflict with such interests. If the interests of the New Shareholders conflict with the other Shareholders or GDR Holders, or if the New Shareholders choose to cause the Enlarged Group's business to pursue strategic objectives that conflict with the interests of the other Shareholders or GDR Holders, those other Shareholders or GDR Holders could be disadvantaged by the actions that the New Shareholders may choose to pursue.

PART III. RATIONALE FOR AND PRINCIPAL TERMS OF THE PEREKRESTOK TRANSACTION

1.1 Introduction

On 12 April 2006, the Board of Supervisory Directors of Pyaterochka announced the merger of Pyaterochka and Perekrestok, a majority-owned subsidiary of Alfa Group, to create the clear leader in the fast growing Russian food retail market. Alfa Group, one of the largest and most successful financial investors in Russia and a long-standing investor in the Russian food retail sector, together with certain members of Perekrestok management, will also acquire a stake in Pyaterochka from companies controlled by Pyaterochka's Founding Shareholders, resulting in Alfa Group becoming the majority shareholder in the Enlarged Group. Andrei Rogachev and Alexander Girda, the founders of Pyaterochka, together with other members of Pyaterochka's senior management, strongly support the merger and will retain a stake of 21.2% in Pyaterochka. The following is a brief summary of the transaction highlights:

- Pyaterochka is leading the consolidation of the Russian food retail market;
- Merger will create the clear leader in the fast growing Russian food retail market with combined 2005 net sales of US\$2.4 billion;
- Total of 880 stores, including 467 company-managed stores and 413 franchisee stores as at 1 January 2006;
- Diversified and complementary geographic presence, creating the leader in the key markets of Moscow and St Petersburg and a strong and proven platform for rapid regional expansion;
- Multi-format capability with potential for accelerated future growth, with target sales of approximately US\$6 billion in 2008;
- Potential for substantial synergies;
- Combination of two strong management teams; and
- Alfa Group, one of the largest and most successful financial investors in Russia and a long-standing investor in the Russian food retail sector, to become Pyaterochka's majority shareholder, committed to the long term development of the Enlarged Group.

1.2 Summary of the Perekrestok Transaction

Pyaterochka has agreed to merge with Perekrestok Holdings Limited ("**Perekrestok**"), the leading supermarket chain in Russia. The merger will be effected through an acquisition, by Pyaterochka, of the entire issued share capital of Perekrestok from Luckyworth Limited ("**Luckyworth**") (a majority-owned subsidiary of Alfa Group, with the remaining shares owned by members of Perekrestok's management) and Templeton Strategic Emerging Markets Fund LDC ("**Templeton**") (together with Luckyworth the "**Perekrestok Sellers**") (the "**Perekrestok Transaction**"). The consideration for the acquisition of Perekrestok is US\$300 million in cash (the "**Cash Consideration**") and the issue of 15,813,253 new Pyaterochka Shares in the form of ordinary shares or GDRs (the "**New Pyaterochka Shares**"). Based on the average closing price per GDR of US\$16.83 during the 30 trading days prior to and including 5 April 2006, the last trading day prior to Pyaterochka's announcement that it was in merger discussions with Perekrestok, the transaction values Perekrestok at US\$1,365 million.

In addition, Cesaro Holdings Limited ("**Cesaro**"), a wholly-owned subsidiary of Alfa Group, and Luckyworth have purchased 2,467,917 Pyaterochka Shares from the Founding Shareholders for US\$200 million in cash, and have agreed to purchase a further 12,068,115 Pyaterochka Shares from the Founding Shareholders, subject to certain adjustments, for US\$978 million in cash on completion (the "**Pyaterochka Transaction**"). Alfa Group's purchase of a total of 14,536,032 Pyaterochka Shares from the Founding Shareholders for a total of US\$1,178 million in cash is the equivalent to US\$20.26 per GDR, and represents a 20.4 per cent premium to the average closing price per GDR of US\$16.83 during the 30 trading days prior to and including 5 April 2006, the last trading day prior to Pyaterochka's announcement that it was in merger discussions with Perekrestok. Upon completion of the Perekrestok Transaction and the Pyaterochka Transaction, and before any adjustments, Alfa Group (together with certain members of Perekrestok management) will become the majority shareholder in Pyaterochka with a holding of 54.0 per cent. and the Founding Shareholders, together with other members of Pyaterochka's senior management, will retain a holding of 21.2 per cent. Templeton will have a holding of 2.1 per cent. in the Enlarged Group, and has entered into an 18-month lock-up agreement with CTF, a wholly owned subsidiary of Alfa Group, in respect to its holding. Pursuant to the Pyaterochka Agreement, Alfa Group has entered into a lock-up undertaking with the Founding Shareholders, which applies for one year after the expected closing date of the transaction.

If the merger or the acquisition of Pyaterochka Shares from Pyaterochka's Founding Shareholders does not complete, Pyaterochka's Founding Shareholders and/or Alfa Group, as applicable, may be required to pay a significant break fee to the other. If Alfa Group is required to pay a break fee to the Founding Shareholders, Pyaterochka will be entitled to up to US\$15 million of that break fee.

Strong incentive plans have been put in place for both Pyaterochka and Perekrestok to meet their respective 2006 financial targets. Pursuant to the Pyaterochka Agreement entered into between Alfa Group and the Founding Shareholders, under certain circumstances, the percentage of Pyaterochka Shares transferred to Alfa Group may increase or decrease, and the Founding Shareholders' interest will correspondingly decrease or increase, based upon the 2006 financial performance of the businesses. For further details of the incentive arrangements, please refer to Part X "Summary of Perekrestok Transaction Documents".

As part of the terms of the Perekrestok Transaction and Pyaterochka Transaction, companies controlled by Andrei Rogachev and Alexander Girda have agreed to grant Pyaterochka a call option, exercisable in 2008, to acquire the entire share capital of Formata Holding B.V. ("**Formata**"), which operates a chain of hypermarkets under the Carousel brand in St. Petersburg, the Leningradsky region and Nizhni Novgorod. The consideration for the exercise of the call option will be in cash and newly issued Pyaterochka Shares and calculated by reference to the future financial performance of Formata. For further details of the call option agreement, please refer to Part X "Summary of Perekrestok Transaction Documents".

HSBC has issued a fairness opinion to the Board of Supervisory Directors of Pyaterochka stating its opinion that the consideration payable by Pyaterochka for its acquisition of Perekrestok is fair, from a financial point of view, to Pyaterochka.

Completion of the Perekrestok Acquisition Agreement is conditional on, among other things:

- (a) the Shareholders:
 - (i) approving the Perekrestok Transaction at an Extraordinary General Meeting convened for 12 May 2006; and
 - (ii) approving the issue of the New Pyaterochka Shares and excluding the pre-emption rights relating to such New Pyaterochka Shares.
- (b) FAS giving its unconditional consent;
- (c) Pyaterochka issuing the New Pyaterochka Shares;
- (d) the Pyaterochka Agreement becoming unconditional (save as to the condition requiring the Perekrestok Acquisition Agreement to become unconditional) and not being terminated;
- (e) the due execution and delivery of the Finance Documents by Pyaterochka or the issue of the Loan Notes by Pyaterochka (as applicable); and
- (f) delivery by Pyaterochka of the Pyaterochka Accounts for the twelve month period ending on 31 December 2005.

Closing of the merger and the purchase of Pyaterochka Shares from the Founding Shareholders is expected in the second quarter of 2006.

1.3 Financing the Perekrestok Transaction

The Perekrestok Transaction will be financed through a combination of the Cash Consideration and the issue of New Pyaterochka Shares. Pyaterochka has entered into a formal commitment letter and termsheet with a number of leading international financing banks in connection with the financing of the Cash Consideration payable for the acquisition of Perekrestok, to refinance the existing debt of Perekrestok, and to provide for a capital expenditure facility to finance the future development of the Enlarged Group (see Part X – "Summary of Perekrestok Transaction Documents" for further details). The availability of such financing depends upon the banks finalising their due diligence process and Pyaterochka agreeing and entering into legal documentation relating to the financing with the financing banks. Pyaterochka is confident that such agreement will be reached and the financing obtained prior to completion of the Perekrestok Transaction. If financing is not obtained from the banks, Pyaterochka shall issue the Loan Notes to the Perekrestok Sellers in satisfaction of the Cash Consideration payable for the acquisition of Perekrestok. Pyaterochka will need to refinance the Loan Notes within 60 days of their issue.

1.4 Background and reasons for the Perekrestok Transaction

Pyaterochka and Perekrestok operate in different segments of the Russian food retail market. Pyaterochka operates discount stores, while Perekrestok operates convenience stores, supermarkets and city hypermarkets.

Although there are continued significant growth prospects for Pyaterochka's format on a stand-alone basis, Pyaterochka believes that its merger with Perekrestok represents a truly exciting prospect for Pyaterochka, creating the clear leader in the fast growing Russian food retail market with the potential for accelerated future growth as a result of the Enlarged Group's multi-format capability.

The multi-format approach will consist of running Pyaterochka's and Perekrestok's current store format strategies separately, resulting in minimal merger disruption. This will therefore allow management to continue to focus on rapid growth whilst simultaneously optimising various aspects of their operations including purchasing, distribution, logistics, IT, new store development and real estate purchasing.

Pyaterochka believes that the Enlarged Group will benefit from:

- (a) a clear leadership position in the fast growing Russian food retail market;
- (b) a combination of two strong management teams as well as an enhanced ability to attract and retain management talent;
- (c) a diversified and complementary geographic presence, creating the leader in the key Moscow and St Petersburg markets and a strong and proven platform for rapid expansion in the large and relatively under-developed markets of the Russian regions (particularly in the European parts of Russia), Ukraine and Kazakhstan;
- (d) a multi-format capability by combining Pyaterochka's successful discount format with Perekrestok's leading chain of supermarkets, with the potential for accelerated growth;
- (e) improved access to high quality real estate in Moscow, St Petersburg and the Russian regions with the opportunity to share information relating to new store opportunities; and
- (f) potential for substantial synergies, including economies of scale in purchasing, logistics and IT, and sharing of best practices within the Enlarged Group.

Clear leadership position

Market leadership in the highly-fragmented and rapidly-evolving Russian food retail market is of high importance. An established and proven infrastructure to support a rapid store roll-out strategy, a strong management team and the ability to secure advantageous purchasing terms with suppliers through economies of scale are critical sources of competitive advantage to support the long-term success of the Enlarged Group.

The Enlarged Group will be the largest food retailer in Russia in terms of sales, with combined 2005 net sales of US\$2.4 billion. As at 1 January 2006 Pyaterochka and Perekrestok operated 467 company-managed stores, of which 347 are discount stores, 25 are convenience stores, 88 are supermarkets and 7 are city hypermarkets. In addition, as at 1 January 2006 the franchisees of Pyaterochka and Perekrestok operated 413 franchised stores, which are mainly discount stores.

The Enlarged Group expects to have a leading market position in the key markets of the Moscow area and the St Petersburg area, which have an aggregate population of more than 23 million people and account for approximately one third of total Russian retail sales, and also expects to benefit from the creation of a strong growth platform in the large and relatively under-developed markets in the Russian regions, Ukraine and Kazakhstan.

Combination of two strong management teams

The combination of two sets of strong management will, in Pyaterochka's view, create a team with unrivalled industry experience and success. This is of particular importance in the Russian market, which features a significant shortage of experienced retail professionals. The market leadership will further attract the best management talent and employees to facilitate accelerated growth and enhance leadership.

Diversified and complementary geographic presence

The Enlarged Group will benefit from a highly diversified and complementary geographic presence through a combination of Pyaterochka's strengths in the Moscow area and its traditional home market of the St Petersburg area, and Perekrestok's strength in the Moscow area, Russian regions and the Ukraine. Following completion of the transaction, the Enlarged Group will be the leader in the key Moscow and St Petersburg markets, and will have a strong and proven platform for rapid expansion in the large and relatively under-developed markets of the Russian regions (particularly in the European parts of Russia), Ukraine and Kazakhstan. As at 1 January 2006 Pyaterochka operated 159 stores (124 at year end 2004) that were located in the Moscow area, 167 stores (111 at year end 2004) located in the St Petersburg area and 21 stores located in Yekaterinburg (nil at year end 2004) and Perekrestok operated 73 stores (62 at year end 2004) that were situated in the Moscow area, 43 (28 at year end 2004) in St Petersburg and the Russian regions and 4 (nil at year end 2004) in Ukraine.

In addition to the strong position in the core markets, the Enlarged Group has a proven track record of successful expansion and access into the Russian regions, Kazakhstan and Ukraine through the 404 franchisee stores that Pyaterochka operates in these regions as at 1 January 2006 (207 at year end 2004), and the strong presence of Perekrestok stores in these locations.

Multi-format capability with the potential for accelerated growth

Pyaterochka believes that the merger of Pyaterochka and Perekrestok will create a multi-format player with a combination of discount stores, convenience stores, supermarkets and city hypermarkets. This multi-format strategy, which mirrors the approach taken by the leading food retailers in Western Europe, such as Tesco and Carrefour, is expected to bring a number of benefits to the Enlarged Group, including:

- (a) ability to target a broader range of customer segments in the geographic markets in which it operates through its multi-format business;
- (b) greater flexibility in securing sites for new stores, particularly in the Russian regions, as the Enlarged Group operates formats suitable for a wider array of property sizes and locations;
- (c) greater adaptability to evolving customer needs, allowing the Enlarged Group to maintain or grow market share in spite of changes in shopping habits and demographic trends; and
- (d) improved ability to benefit from expected growth in Russian consumer spending. One of Pyaterochka's key competitive advantages has been its focus on serving the lower income segment of the Russian population, aggressively gaining market share from open markets and kiosks. However, as Russian consumer purchasing power is increasing, Pyaterochka believes there is an attractive opportunity to access the emerging middle-class segment with more sophisticated shopping habits and demands. While Pyaterochka continues to recognize and address the need to upgrade both its product range and the appearance of its own soft discounter stores, Pyaterochka believes that the Perekrestok Transaction provides an excellent opportunity to establish a leading presence in the mid to higher end of the market, which will allow the Enlarged Group to address the full spectrum of the modern Russian food retail market.

Improved access to high-quality real estate in Moscow, St Petersburg, the Russian regions with opportunity to share information relating to new store opportunities

It is anticipated that the combined expertise of Pyaterochka and Perekrestok in acquiring rights to the most attractive land plots and properties at reasonable cost will provide the Enlarged Group with a robust pipeline supporting the successful execution of its store roll-out strategy. By virtue of the multi-format model, the Enlarged Group is expected to be better positioned to make acquisitions, including parcels of real estate and of merger and acquisition targets in the regions which were previously unsuitable for the respective companies on their own. A high quality store base in key locations will be essential to the continued success of the Enlarged Group. Obtaining land plots, executing construction plans, and eventually obtaining the exclusive right to acquire title to the land plot or to obtain it on a long-term lease in Russia involves a process of several stages. There is growing competition for key plots for retail sites and through the Perekrestok Transaction the Enlarged Group believes that it will be better positioned to compete for these plots.

Potential for substantial synergies

Quantified cost synergy benefits

Pyaterochka management has identified and quantified cost synergy benefits arising from the Enlarged Group's greater economies of scale in purchasing, including the opportunity to increase sourcing from overseas. The

estimated annual purchasing savings are expected to amount to approximately US\$85 million by the financial year ending 31 December 2008. As these synergies are expected to be achieved through the renegotiation of supplier agreements, Pyaterochka's management believes that the capital expenditure and one-off costs necessary to achieve these synergies will be negligible, and expect this to result in only limited operational disruption to the Enlarged Group.

Unquantified cost synergy benefits

Pyaterochka management believes that the Enlarged Group will also be able to better leverage future investments in distribution, logistics and IT, thereby reducing the aggregate amount of capital investment and operating costs related to these functions. Management, however, is focused on minimising operational disruption in order to support the Enlarged Group's continued strong growth, and therefore has no plans to rationalise or alter Pyaterochka and Perekrestok's respective distribution, logistics and IT platforms in the near term.

In addition, the Perekrestok Transaction is expected to result in improvements from sharing best operating practices within the Enlarged Group, including store merchandising, human resource management and motivation, and management control and budgeting systems.

Additional central costs

Pyaterochka management estimates that the incremental operating costs to manage the combined entity, including co-ordination of core areas such as purchasing, store network development, and the transfer of best practices, will amount to approximately US\$5 million per annum.

1.5 Strategy of the Enlarged Group

The strategic focus of the Enlarged Group outlined below will be to maintain profitable growth, increase the Enlarged Group's profitability and minimise merger disruption.

Maintain market leadership in the Russian food retail market

The Enlarged Group intends to continue the aggressive rollout of new stores. During 2006, the Enlarged Group plans to open approximately 130 new discount stores, and at least 40 new "Perekrestok" stores (the latter expected to contribute approximately 60,000 square metres of additional selling space). With respect to the new "Perekrestok" stores to be opened during 2006, 70% of sites have already been secured and the remaining 30% are under negotiation.

The Enlarged Group plans to continue its rapid expansion over the medium term, targeting over 700 discount stores and approximately 240 "Perekrestok" stores by 2008, including approximately 30 convenience stores, 180 supermarkets and 30 city hypermarkets.

(a) Enhance leadership position in the key Moscow and St Petersburg markets

In the Moscow area, which currently accounts for approximately 25 per cent of Russia's total food retail sales, the Enlarged Group has plans to increase the number of its stores from 232 (at 31 December 2005) to over 500 by the end of 2008. The Moscow oblast, which has a growing population of more than six million people, does not have many modern food retail formats and therefore management believes this geography represents a particularly attractive growth opportunity for the Enlarged Group. Furthermore, the combined distribution centres should allow for efficiency gains of the logistics operations in the Moscow area.

In the St. Petersburg area, which has a population of more than six million people and currently accounts for approximately 4 per cent of total Russian food retail turnover, the Enlarged Group has plans to increase the number of stores from 176 (as at 31 December 2005) to approximately 275 by the end of 2008. Management believes that these store opening plans will further consolidate the Enlarged Group's leadership position in St Petersburg, whilst allowing for the appropriate deployment of the Enlarged Group's financial and management resources to support future strong growth in the Moscow area, the Russian regions and Ukraine, where competition is relatively benign.

(b) Regional leadership through multi-format approach

The Enlarged Group intends to maintain profitable growth in the fast-growing Russian food retail market by developing its market presence through a multi-format approach, focusing on its core regional markets as well as expanding into other Russian regions and neighbouring countries through acquisitions and franchising. The multi-format approach will consist of running Pyaterochka's and Perekrestok's current store format strategies separately, whilst simultaneously optimising various aspects of their operations including distribution, logistics, IT, new store development and real estate purchasing. The Enlarged Group has plans to increase the number of owned stores in the regions (excluding St Petersburg) from 59 (as at 1 January 2006) to approximately 165 by the end of 2008.

In addition, the Enlarged Group intends to supplement its own store expansion in the Russian regions, Kazakhstan and the Ukraine with the continued development of its franchise network. The Enlarged Group intends to have franchise operations in at least 30 out of 88 Russian regions by the end of 2012. The Enlarged Group also intends in the longer term to significantly expand its existing franchise network in Kazakhstan and Ukraine, as well as establish a franchise operation in Belarus and Moldova. Pyaterochka believes that the expansion of franchise operations will increase the Enlarged Group's purchasing power with suppliers, strengthen the recognition of its brand and enable the Enlarged Group, where appropriate, to expand its own store network by purchasing interests in the operation of some of its franchisees.

Increase the Enlarged Group's profitability

(a) Deliver purchasing scale benefits

The Enlarged Group expects to be able to negotiate lower prices from suppliers through increased purchasing power. These benefits will be enhanced by the continued rationalisation of the number of suppliers and SKUs. Economies of scale will create the potential to increase direct imports through the opening of dedicated importing operations in various key geographic locations, including China.

(b) Increased contribution from private label goods

The Enlarged Group expects to strengthen its leadership in the sale of private label goods in Russia. Over the next few years, the management of the Enlarged Group is planning to increase the percentage of Pyaterochka private label goods sales to 50 per cent of Pyaterochka net sales, and for Perekrestok private label goods to contribute 13 per cent of Perekrestok net sales. The management believes that the increased sales contribution from private label goods will give the Enlarged Group a cost advantage over its competitors and increase customer loyalty, thereby allowing it to remain competitive on price whilst increasing profitability.

(c) Continued investment in distribution and logistics

The Enlarged Group will continue to invest in distribution and logistics to reduce complexity, increase profitability and increase stock availability.

Pyaterochka has expanded its distribution capacity in St. Petersburg and has 18,900 square metres of distribution centre space and is building a new distribution centre in the Moscow area, approximately 10 kilometres outside of Moscow (first phase of 30,000 square metres expected to be completed in 2006, with a subsequent expansion to 50,000 square metres expected in 2007). Construction of a second Pyaterochka distribution centre in the St Petersburg area of 15,000 square metres is planned in 2007. Perekrestok plans to open a 60,000-80,000 square metres distribution centre in Moscow by the end of 2007.

As a result of the additional investment, the Enlarged Group aims to significantly reduce the number of deliveries to individual stores by increasing its own distribution centre capability. Pyaterochka's target is to raise its own distribution centre share of volumes from 50 per cent to 80 per cent by 2008, whilst Perekrestok aims to increase its share from 25 per cent to 75 per cent in the same time period. The combined effect of this would lead to significant supplier delivery savings and an increase in stock availability.

(d) Other operating cost efficiencies

The Enlarged Group will continue to optimise staffing levels in its stores. Furthermore, for "Perekrestok" stores management has plans to increase production and sales of own salads and deli products, as well as benefit from a new meat processing plant opened in Moscow during the first quarter of 2006.

Minimise potential merger disruption

The Perekrestok Transaction effects the combination of two already highly successful and fast growing companies. Given the dynamic Russian food retail market, it is important that speed and efficiency is maintained in all aspects of operations. Therefore, in the short term, while extracting the purchasing synergies and optimising future investments, there will be limited changes in operations, including no re-branding of stores or change in logistics. The Enlarged Group will continue to run Pyaterochka's and Perekrestok's current store format strategies separately. The management structure will be decentralised with the two business units retaining their operating independence and profit and loss responsibilities. The corporate centre will focus on corporate strategy and M&A, ensuring synergies are realised through co-ordination of core functional areas (including purchasing, store network development and best practice transfer), deployment of capital expenditure, corporate funding, consolidated financial reporting, Group wide legal and strategy issues, and investor relations.

1.6 Dividend policy

The Company does not currently plan to pay a dividend.

1.7 Earnings impact

The Perekrestok Transaction will have a transforming impact on the financial position of Pyaterochka. The Company believes that the acquisition of Perekrestok will be earnings enhancing to the Enlarged Group in the first full year of the acquisition. This statement should not be interpreted to mean that future earnings of the Enlarged Group will necessarily match or exceed Pyaterochka's historical published earnings.

1.8 Board of Supervisory Directors and Management Board

Upon completion of the Pyaterochka and Perekrestok Transactions and, subject to Shareholder approval, it is intended that the Pyaterochka Board of Supervisory Directors will consist of the following: Mr David Noble, who will continue in his current capacity as independent non-executive Chairman, Andrei Rogachev and Tatyana Franous, who will continue their roles as members of the Board of Supervisory Directors, and five representatives from the Alfa Group: Mikhail Fridman, Chairman of Alfa Group, Alexander Kosiyanenko, the current CEO of Perekrestok, Nigel Robinson, Alexander Savin and David Gould. It is intended that by the end of 2006, one of these five Alfa Group representatives will be replaced by an independent director. It is also intended that Alexander Girda and Igor Vidiaev will leave the Board of Supervisory Directors.

Subject to Shareholder approval of his appointment to the Management Board, Lev Khasis, currently Chairman of Perekrestok, will become CEO of the Enlarged Group. Lev Khasis brings to the Enlarged Group a wealth of experience in Russian retail, including positions held at Perekrestok (Board member since 1999 and Chairman of the Board since 2002), State Department Store "GUM" (Chairman of the Board from 2003 until 2004), Central Department Store "TsUM" (Chairman of the Board from 2001 until 2003), as well as his role as co-founder of several start-up food retail businesses in Russia including Fauchon, Globus Gourmet and Hediard. In addition, subject to Shareholder approval of his appointment to the Management Board, Vitaliy Podolsky, currently CFO of Perekrestok, will become CFO of the Enlarged Group.

Upon completion of the merger, Pawel Musial, current COO of Perekrestok, will become CEO of Perekrestok and will replace Alexander Kosiyanenko, who will join the Board of Supervisory Directors and retain overall responsibility for Perekrestok's strategy and existing operations. Subject to Shareholder approval of their appointment, Pawel Musial and Andrei Gusev will also join the Management Board of Pyaterochka. The existing management team of Pyaterochka, including Oleg Vysotsky as CEO and Anzhelika Li as CFO, will continue to run the Pyaterochka business.

As referred to above, Lev Khasis, through an investment company co-founded by him, established as a co-owner two food retail businesses operating in Russia, in which he still continues to own minority beneficiary equity interests:

- "The Stolichnaya Torgovaya Kompaniya" (Stolichnaya Trade Company) LLC (Moscow) which operates a top-premium grocery store chain, under the brands Fauchon and Hediard (as a licensee) and under a brand of its own –"Globus Gourmet"; and
- "Daily Foods" LLC (Moscow) that develops a chain of small (about 100 sq. meters) convenience food stores under its own brands "Daily" and "Daily Express".

Whilst these businesses are of much smaller scale compared to the Enlarged Group (Fauchon, Hediard, Globus Gourmet and Daily had combined 2005 net sales of less than US\$20 million), and operate in a different segment of the Russian food retail market versus the Enlarged Group, conflicts of interest may arise. In order to avoid any potential or perceived conflict of interest, and based on legal advice received to date, Lev Khasis has agreed to place his beneficiary equity interests in these food retailers into a blind trust domiciled in a Western country and will have no management involvement with any of these assets.

1.9 Extraordinary General Meeting

The Perekrestok Transaction is conditional upon, among other things, Shareholders approving the Perekrestok Transaction and the issue of the New Pyaterochka Shares pursuant to the Perekrestok Transaction. The Extraordinary General Meeting will be held on 12 May 2006 at which the approval of Shareholders will be sought for certain resolutions, including Pyaterochka's acquisition of Perekrestok.

1.10 Settlement, Listing and dealings

If Pyaterochka has issued the Prospectus prior to closing of the Perekrestok Transaction, application will be made to the UKLA and to the London Stock Exchange respectively, for admission of the New GDRs (i) to the Official List; and (ii) to trading on the London Stock Exchange's market for listed securities. In this circumstance, it is expected that listing will become effective following the date on which it is announced that all conditions to the Perekrestok Transaction have been fulfilled.

PART IV. BUSINESS INFORMATION ON PYATEROCHKA

1.1 Overview

Pyaterochka is one of the largest grocery retailer in Russia in terms of sales and as at 1 January 2006 operated 347 stores (235 at year end 2004), of which 159 stores (124 at year end 2004) were located in the Moscow area, 167 stores (111 at year end 2004) were located in the Company's traditional home market of the St. Petersburg area and 21 stores (nil at year end 2004) were located in the Yekaterinburg area. Pyaterochka's stores are "soft" discount stores. In addition, as at 1 January 2006, the Pyaterochka Group's franchisees operated 404 stores (207 at year end 2004) under the Pyaterochka brand in the Russian regions outside the Moscow and St. Petersburg areas and in the neighbouring countries of Kazakhstan and Ukraine. For the year ended 31 December 2004, the Pyaterochka Group had net sales of approximately US\$1.1 billion and its customers made over 196 million visits to the Pyaterochka's stores. Pyaterochka's net sales rose to US\$1,359 million for the year ended 31 December 2005. In 2004, the stores operating under the Pyaterochka brand had gross banner sales approaching US\$1.6 billion. Gross banner sales reached approximately US\$2.084 billion in 2005.

Pyaterochka's stores are conveniently located "soft" discount stores, generally open seven days a week from 9am to 10pm or 11pm, offering a product range of up to 5,000 items covering the day-to-day needs of its customers, including food and non-food products, fresh produce and perishables. The average size of Pyaterochka's stores is approximately 1,000 square metres, with a selling area of approximately 600 square metres.

To date, Pyaterochka has operated within the high growth discount segment, positioning itself as a value-focused retailer committed to being competitive on price and has captured a clear market leading position in this segment. As the market matures and private label becomes more prevalent, competition (including from operators like Perekrestok) remains high on certain staple product categories.

1.2 History

Pyaterochka's business was founded by Andrei Rogachev and Alexander Girda in St. Petersburg in 1998 using the human resources and operational support of two food wholesale operations. The 1998 financial crisis in Russia adversely affected many of their wholesale customers and the management of the two companies decided to establish a discount grocery retail chain that would also provide another sales channel for their products.

Following the 1998 financial crisis, it quickly became apparent to Pyaterochka that there was a strong demand for competitively priced products of high quality sold in a clean, modern environment. In December 1998, Agrotorg Company Limited ("**Agrotorg**"), the first subsidiary of Pyaterochka, was established to manage the retail operations in St. Petersburg. In February 1999, the first Pyaterochka store was opened in St. Petersburg. It had a retail area of 150 square metres and was positioned as a discount store with a limited range of essential food products (about 400 items) targeted at lower income customers. In 1999, Pyaterochka opened 16 stores in various parts of St. Petersburg. Shortly after the first stores were opened, they became popular not only with lower income families but also with St. Petersburg's middle-income population. In response to consumer demand, it was decided to expand the chain and broaden the range of products in order to target a wider customer base.

In 2000, the Pyaterochka Group's store chain grew by 22 stores to a total of 38 stores. The demand and the purchasing power of the population in Russia were growing and Pyaterochka embarked on a construction and development programme aimed at increasing the attractiveness of its stores to customers. The Pyaterochka Group's first purpose-built store was opened in October 2000, having a retail area of 500 square metres.

In July 2001, Pyaterochka opened its first store in Moscow. The Pyaterochka Group opened a total of 15 stores in Moscow and 28 stores in St. Petersburg during 2001.

In December 2001, the European Bank for Reconstruction and Development (the "**EBRD**") acquired a minority equity stake in the Company.

In 2002, the Pyaterochka Group expanded its chain by a further 40 stores in Moscow (bringing the total to 55) and 15 stores in St. Petersburg (bringing the total to 80). Towards the end of 2002, the Company identified a potential for 500 stores in Moscow and 250 stores in St. Petersburg and decided to concentrate resources on increasing the size of its operations in its core markets whilst expanding in the Russian regions through franchising. By the end of 2002 five franchise stores bearing the Pyaterochka brand were opened in Voronezh and two in Chelyabinsk, bringing the number of stores operating under the Pyaterochka brand to 142 stores.

In 2003, the Pyaterochka Group significantly increased the rate of expansion of its store chain. That year, it opened 54 Company-managed stores (42 in Moscow and 12 in St. Petersburg) and its franchisees rapidly expanded into other Russian regions. The Pyaterochka Group's franchised operations started in Ufa, Perm, Yekaterinburg, Ulyanovsk, Volgograd and Saratov. Growth continued in Voronezh and Chelyabinsk. The total number of stores operating under the Pyaterochka brand reached 260 (of which 71 were franchise stores) by the end of 2003.

In 2004, Pyaterochka continued to expand its operations in its core markets and in the Russian regions outside of those markets. That year, Pyaterochka's franchisees set up operations in Kazakhstan and Ukraine, thus making Pyaterochka the first Russian grocery retail chain to expand abroad. The EBRD sold its shareholding to the Founding Shareholders in 2004.

On 11 May 2005, Pyaterochka obtained a listing on the London Stock Exchange in the form of GDRs, providing a free float of 32.07 per cent. to the investor community. In the course of the year, Pyaterochka continued its store opening programme and also progressed a store restyling initiative which is being rolled out to the entire network and which Pyaterochka believes will make the outlets even more attractive to the consumers and help cement Pyaterochka's leading position. During the later part of the year, Pyaterochka experienced some decline in store traffic particularly in its St. Petersburg stores and over time competitive pressures are expected to cause footfall numbers to become more similar in St. Petersburg and Moscow.

In June 2005, Pyaterochka announced that it had reached agreement to acquire 18 Kopeika stores in St. Petersburg. The purchase price was agreed as US\$60.8 million. The acquisition of these stores adds 5,725 square metres selling space in St. Petersburg. Pyaterochka has rebranded 17 Kopeika stores (one store is in the process of rebranding) as part of the Pyaterochka network during a 30 day conversion period and the stores stock Pyaterochka's range of products.

On 15 December 2005, Pyaterochka signed an agreement to acquire control of SRT – the largest franchisee of the Kopeika retail chain in the Moscow area with 25 stores. Following the acquisition, Pyaterochka will increase the number of stores in Moscow by 14 and the Moscow region by nine stores, and will add two stores in the city of Vladimir. The acquisition adds net selling space of approximately 11,800 square metres. Of the 25 stores, 12 are owned and 13 are on long-term leases. The consideration is US\$90 million including US\$7 million of assumed debt. The individual stores are being transferred gradually, with 13 stores being opened as Pyaterochka stores in the first quarter of 2006. The acquisition will be part financed from the proceeds of the RUR 3 billion bond issue by Pyaterochka Finance LLC which was placed on MICEX on 20 December 2005 (see paragraph 1.3(k)(ii) of Part XIII) and part financed by bank financing.

On 30 December 2005, the Pyaterochka Group acquired the franchise network in Yekaterinburg by purchasing OOO Economtorg, including 21 stores, a warehouse, a regional head office and a training centre. The value of the transaction was approximately US\$14.5 million, comprising a cash payment for 100 per cent. of OOO Economtorg's shares and the value of the assumed debt.

On 20 March 2006, OOO Economtorg was sold to third parties for a nominal value. As a result of this transaction three stores rented by OOO Economtorg were closed.

On 18 January 2006, Pyaterochka announced that it had signed an agreement on 17 January 2006 to acquire a 26 per cent. equity stake in its franchise operator in the Chelyabinsk region of Russia, OOO Ural-Agro-Torg ("UAT"). Pyaterochka's operating subsidiary, Agro-Star Joint Stock Company ("Agro-Star"), has agreed to purchase the 26 per cent. stake, for a cash payment of RUR 43.5 million (approximately US\$1.5 million). Pyaterochka has also signed agreements outlining steps for further consolidation of its operations in the Chelyabinsk region. According to these agreements, by 1 June 2006, Pyaterochka and the majority owner of UAT will combine the operations of the Chelyabinsk and Yekaterinburg regions, to form a new entity, Pyaterochka Ural.

1.3 Pyaterochka management

Pyaterochka's management structure consists of the Board of Supervisory Directors, the Management Board and certain executive officers. Part VII of this document sets out further detail relating to the role and composition of the Board of Supervisory Directors, the Management Board and senior management team.

1.4 Operations and Stores

As at 1 January 2006, Pyaterochka operated 347 stores, of which 159 were located in the Moscow area and 167 stores were located in the St. Petersburg area and 21 stores were located in Yekaterinburg. In addition, as at 1 January 2006, 404 stores under the Pyaterochka brand were operated by franchisees in the Russian regions outside the Moscow and St. Petersburg areas and in the neighbouring countries of Kazakhstan and Ukraine.

(a) Retailing format

Pyaterochka believes that the key factors underlying the appeal of the Pyaterochka stores to customers are convenient store location, competitive prices and a well-chosen range of products.

Convenient Store Location – Pyaterochka believes (supported by market studies) that convenient store location is a key factor in ensuring Pyaterochka's continued success. Due to the combination of the relatively low car ownership prevalent in Russia, the relatively cold climate and the relatively small apartments in which many of Pyaterochka's target customers live, the Pyaterochka Group seeks to locate its stores in convenient neighbourhood locations in densely populated residential areas, enabling customers to shop frequently and without having to travel long distances.

Competitive prices – Pyaterochka seeks to ensure that approximately 150 products typically referenced by customers to compare the price attractiveness of various grocery retailers, referred to as "known value items" ("KVI's"), are sold at the lowest price available in the relevant regional retail market, with the remaining products sold at the average price of Pyaterochka's direct local competitors.

Well-chosen product range – The Pyaterochka stores are positioned as a "soft" discount concept, offering a product range of up to 5,000 products, most of which are food products. In 2005, non-food items comprised approximately 12 per cent. of Pyaterochka's product range and approximately 11 per cent. of its revenue.

The Pyaterochka retailing format is also characterised by simple and clear store layout, which Pyaterochka believes responds to customer demand for hygienic and self-service shopping and presents an attractive alternative to open markets.

The Company regularly benchmarks the success of Pyaterochka's retailing format against the operations of some of the leading international discounters. Key metrics like annual revenue per square metre, average ticket size, and operating margins all indicate that the Pyaterochka format successfully captures the value-focused end of the Russian food retail market.

(b) Development of new stores

The size and location of new stores are determined centrally by dedicated development teams for each of the Moscow and St. Petersburg areas. In line with the Pyaterochka retailing format, location and convenience are the key factors in selecting land sites and premises for new stores. Pyaterochka predominantly uses premises and sites that are located in residential districts, close to underground stations, close to or in major shopping centres, adjacent to major traffic intersections or thoroughfares, or adjacent to major roads. Other criteria include the number of residents in the adjacent area and proximity to, and visibility from, roads, easy access by vehicles (including lorries) and, in respect of "greenfield" sites being acquired for the development of newly built stores, the shape of the site (which must be consistent with the standardised Pyaterochka store designs) and availability of suitable property rights, such as ownership or a leasehold with a term of at least five years.

Pyaterochka's development teams have produced standardised designs for the construction of newly built stores. The Company believes that this significantly reduces the design, construction and maintenance costs. These store designs are also made available to the Pyaterochka franchisees.

During 2006, Pyaterochka plans to open approximately 130 new stores. Pyaterochka is targeting over 700 discount stores by 2008.

1.5 Real Estate

Initially, almost all of the Pyaterochka stores operated on premises leased from third parties, which, in the view of management, allowed the fastest roll out of the store chain. Subsequently, Pyaterochka began opening stores on premises under its ownership and building its own purpose-built stores. Whilst Pyaterochka believes that,

historically, the use of leased retail space has been less capital-intensive and has required less time for store rollout, it also believes that the use of own and, in particular, purpose-built stores results in a more efficient use of retail space and leads to greater financial and operational security and affords higher revenue per square metre of retail space.

As at 31 December 2005, Pyaterochka operated 326 stores (excluding 21 stores in Yekaterinburg that were acquired on 30 December 2005) in the Moscow and St. Petersburg areas, just over 50 per cent. of which were leased from third parties. However, the share of the owned stores (bought and purpose built) is growing. The table below shows the respective shares of the leased and owned stores among the stores operated by Pyaterochka (as a percentage of the total number of stores) as at 31 December 2005 (excluding 21 stores in Yekaterinburg that were acquired on 30 December 2005):

	Leased stores	Owned stores
	(Per cent. of the total number of stores)	
Moscow area	61	39
St. Petersburg area	43	57
Total for Pyaterochka	52	48

With respect to leased stores, the Pyaterochka Group's current policy is to have lease terms of five to ten years. As at 31 December 2005, the Pyaterochka Group's store chain included 25 stores with unexpired lease terms of less than one year. Rents are usually re-negotiated once every 12 months and adjusted in line with current market rates. The terms of leases provide that, other than the rent, no other terms of an unexpired lease may be revised.

Pyaterochka believes that the Pyaterochka Group has a good reputation as a tenant in both the Moscow and St. Petersburg areas, and this has helped it to negotiate favourable lease terms and renew leases on expiry. In the history of the Pyaterochka Group, there have been 14 leased store closures, of which, for example, four were due to the non-renewal of leases by the Pyaterochka Group as a result of opening new stores nearby, one was due to the Pyaterochka Group's inability to agree an acceptable rent adjustment with the landlord on renewal, one was due to logistical problems, one was due to a competitor acquiring the store having paid a higher price than Pyaterochka was prepared to pay, one due to poor sales and one due to poor sales and high rent.

To lower its rental costs and to provide its customers with complimentary services, the Pyaterochka Group often (where space permits) sublets some store space to third parties such as mobile phone operators, pharmacy kiosks, newsagents and florists.

To support its store construction programme, the Pyaterochka Group has built up a land bank, by acquiring rights (mostly leasehold) to sites where store construction is intended. As at 31 December 2005, the Pyaterochka Group had rights to 30 land sites designated for new store construction, on 18 of which construction was underway.

1.6 Product range

Pyaterochka's product range consists of approximately 5,000 items, over 90 per cent. of which are produced in Russia. Food products comprise approximately 88 per cent. of Pyaterochka's product range and their sales represent 89 per cent. of Pyaterochka's revenue. Most of the Pyaterochka Group's product range comprises fast selling food products and beverages. Fresh and perishable products represents approximately 25 per cent. of Pyaterochka's revenue.

The table below shows a breakdown of the Pyaterochka Group's revenue by product category for the year ended 31 December 2005:

Category	Per cent. of total revenue for the year ended 31 December 2005
Milk/dairy	17
Meat	16
Alcohol	11
Non-food	11
Fruit and vegetables	8
Confectionary/bakery	7
Other	30

The Pyaterochka Group views the development of private label goods as significant for the continuing success of its business. Pyaterochka's first own-label products were introduced in 2001. As at 31 December 2005, the Pyaterochka Group's private label goods, which accounted for 10 per cent. of Pyaterochka revenue, included approximately 250 SKUs of mostly food items developed in co-operation with approximately 100 manufacturers. Pyaterochka focuses its development of private label goods primarily on fast selling, non-perishable and medium-length shelf-life food products (such as pasta and pancakes) and beverages (such as vodka and carbonated soft drinks). There are also a number of non-food items sold under private label goods.

Although Pyaterochka's private label goods are priced at a discount to the equivalent branded products, the Company believes that, due to the absence of a significant marketing and advertising costs component in their cost, they produce considerable costs efficiencies resulting in a gross margin advantage for Pyaterochka.

Pyaterochka has long term plans to increase the percentage of private label goods sold to 50 per cent. of the Pyaterochka Group's total revenue.

The Pyaterochka Group aims to promote the recognition of and loyalty to Pyaterochka's private label goods among its customers by:

- using special colour-coded price tags;
- providing additional discounts on private label goods given to customer loyalty card holders;
- using "umbrella brands" (brands used for product lines rather than individual products); and
- including private label goods in regular weekly promotions at the Pyaterochka Group's stores.

1.7 Pricing

Pyaterochka is positioned as a value-focused retail brand that is competitive on price. The pricing policy is aimed at attracting new customers and retaining existing ones. Pyaterochka aims to ensure that 150 KVIs are sold at the lowest price available in the relevant regional retail market, with the remaining products sold at the average price offered by Pyaterochka's direct competitors in the local market.

Pricing is determined centrally and separately for each of the Moscow and St. Petersburg areas, with all Pyaterochka's stores within each area selling products at prices determined for the relevant area. Pyaterochka believes that the price competitors are outdoor markets and leading discounter chains such as Kopeika in Moscow and Dixi in St. Petersburg. Pyaterochka monitors prices at its competitors' stores and local open markets twice a week, and is able to change its prices within one hour if necessary to adjust to changing market conditions. Whilst Pyaterochka's pricing policy uses a standard pricing for all of its stores operating in the same geographic area, it is able to change prices at a given store if a sale event is underway at a neighbourhood competitor's store.

1.8 Marketing and customers

(a) Marketing

The objectives of Pyaterochka's marketing and advertising activities are to attract and retain customers, improve brand awareness, engender customer trust in the quality of Pyaterochka's products and promote Pyaterochka's private label goods. In 2005, the annual marketing and advertising expenses amounted to approximately 0.3 per cent. of total Pyaterochka revenue.

Pyaterochka believes that the Pyaterochka Group's marketing and advertising efforts have helped make its brand one of the most recognisable among retailers in Russia. These efforts have been a strong contribution to the rapid growth. While maintained in absolute terms marketing and advertising space as a percentage of revenue is expected to decline.

(b) Customers

According to a study by Gfk, a market information group, carried out in 2005, spontaneous customer awareness of Pyaterochka was on average 79 per cent. in St. Petersburg and 51 per cent. in Moscow which was the highest spontaneous customer awareness recorded by the study in St. Petersburg and the joint highest, with Kopeika, in Moscow. Pyaterochka believes that the high customer awareness levels in St. Petersburg can be attributed to Pyaterochka's more prominent position there, as well as the fact that the Pyaterochka Group started its operations in St. Petersburg in 1999 and only expanded into Moscow in 2001.

Pyaterochka believes that the Pyaterochka Group's customers tend to be frequent shoppers. According to Gfk, in Moscow, 28 per cent. of customers visit a Pyaterochka store at least twice a week and 53 per cent. at least once a week. In St. Petersburg, these percentages are 50 per cent. and 70 per cent., respectively.

An average Pyaterochka store has 2,363 customers visiting the store per day. The Pyaterochka Group estimates that the average purchase value per visit in 2005 was approximately US\$6.1.

1.9 Suppliers and purchasing

Pyaterochka has a history of paying its suppliers on time which is seen by the Company as a negotiating strength. A significant portion of Pyaterochka's revenue is generated by a relatively limited number of products, which Pyaterochka believes further strengthens its purchasing power with suppliers. Although Pyaterochka has been able to increase the payment deferral terms agreed with suppliers from 20 days in 2002 to 38 days in 2005, the Company believes that Pyaterochka compares favourably, in a market where some leading international grocery retailers demand payment deferral terms of 45, 60 or even 90 days.

Using these negotiating strengths as leverage with its suppliers, Pyaterochka is looking to consolidate its position by securing further price discounts and other favourable terms (such as supplier rebates and bonuses payable by Pyaterochka's suppliers).

Purchases are made on standardised contract terms and in accordance with Pyaterochka's overall purchasing policy, which prohibits entering into supply contracts with terms exceeding one year.

With 500 active suppliers to the Pyaterochka Group in 2005, the Pyaterochka Group's supplier base remains diversified. In 2005, products acquired from Pyaterochka's 10 largest suppliers accounted for 15 per cent. of Pyaterochka's revenue. Over 90 per cent. of the Pyaterochka range is produced in Russia (including by multinational companies with operations in Russia).

1.10 Inventory management, warehousing and distribution

Pyaterochka believes that its inventory levels are among the lowest in the industry, with the average inventory turnover (the number of days during which the inventory is sold in full) standing at 12 days. The information and logistics systems ensure prompt stock replenishment.

Pyaterochka believes that profitable growth of the business requires modern warehousing and logistics arrangements. Pyaterochka has recently built a 10,300 square metres consolidated warehouse/distribution centre in St. Petersburg. It is equipped with a modern warehouse management system, which the Company believes enables Pyaterochka to increase the efficiency of its operations and accommodate the increased demand resulting from the opening of new stores.

Pyaterochka has expanded its distribution capacity in St. Petersburg and has 18,900 square metres of distribution centre space and is building a new distribution centre in the Moscow area, approximately 10 kilometres outside of Moscow (first phase of 30,000 square metres expected to be completed in 2006, with a subsequent expansion to 50,000 square metres expected in 2007). Construction of a second Pyaterochka distribution centre in the St. Petersburg area of 15,000 square metres is planned in 2007. Pyaterochka aims to raise its own distribution centre share of volumes from 50 per cent. to 80 per cent. in 2008.

Pyaterochka is particularly focused on inventory management and controlling the operating costs at the individual store level. Pyaterochka's stores do not normally have warehousing space but instead keep a small quantity of bulk stock at each store. Stock replenishment is mainly automated. The inventory management system tracks the availability and sales of all the items at each store and forecasts demand. Such forecasts, which may be adjusted by the store managers on the basis of their assessment and knowledge of the local market, form the basis of store orders.

Orders made by the stores are delivered either from the distribution centres or directly from the suppliers. In 2005, deliveries from the distribution centres accounted for approximately 50 per cent. of all deliveries to the Pyaterochka stores in the Moscow area and approximately 50 per cent. of all deliveries to the Pyaterochka stores in the St. Petersburg area.

1.11 Franchise operations

Pyaterochka uses franchise agreements to expand into the Russian regions beyond the core markets, as well as into neighbouring countries. As at 1 January 2006, Pyaterochka's franchisees operated 404 stores under the Pyaterochka brand in the Russian regions outside the Moscow and St. Petersburg areas, as well as in the neighbouring countries, Kazakhstan and Ukraine.

The use of franchise arrangements (as opposed to opening its own stores) allows Pyaterochka to concentrate its operational, financial and management resources on its core markets whilst enabling expansion into other areas. Franchisees also contribute local expertise and knowledge of local market conditions. In addition, the use of franchise agreements allows Pyaterochka to increase its purchasing power (as the franchisees are given access to the supply and purchasing channels thereby increasing the attractiveness of the stores operated under the Pyaterochka brand for the suppliers) and strengthen the recognition of the Pyaterochka brand without significant capital expenditure by the Company.

Pyaterochka appoints one franchisee per Russian region outside of the Pyaterochka Group's core markets. The Pyaterochka Group is a party to 18 franchise agreements. The table below shows the franchised store networks in operation as at 1 January 2006:

Location	Number of stores
Russia	
Voronezh	19
Chelyabinsk	26
Perm'	19
Ufa	37
Ulyanovsk	32
Saratov	20
Volgograd	68
Omsk	16
Samara	39
Krasnodar	24
Novosibirsk	26
Yaroslavl	13
Kazan	24
Kazakhstan	
Almaty	25
Ukraine	
Kharkov	16
Total	404

Pyaterochka selects franchisees among businesses operating in the relevant area which, in the view of the Company, have a solid business reputation, sufficient financial resources, good relations with the local authorities, sufficient experience in the local grocery retail market and the willingness to contribute to Pyaterochka's expansion as its franchisees.

Selected franchisee candidates are required to enter into a franchise agreement with a term of approximately 10 years, in which Pyaterochka agrees to grant them rights to use its trademark, IT systems, business processes, as well as to provide them with access to Pyaterochka's know-how, supply and purchasing channels. Pyaterochka trains the key personnel of its franchisees at its employee training centre in St. Petersburg and sends a launch team to assist with the start up of operations and provide advisory assistance until their operations are well established. In return, each franchisee agrees to make an upfront, one-time payment which, for most agreements entered into in 2005, varied between US\$750,000 and US\$1,000,000 (depending on the terms agreed with the relevant franchisee) and pay to the Pyaterochka Group an average monthly fee equal to 1.3 per cent. of the franchisee's consolidated gross turnover.

Pyaterochka will continue to pursue its existing franchising policy in future. Pyaterochka intends to purchase, where possible, substantial equity interests in the most promising of its franchisees. Although historic franchise agreements do not provide Pyaterochka with an express contractual right to purchase such equity interests, Pyaterochka is currently in discussions with several of the existing franchisees with a view to acquiring

such interests. The Pyaterochka Group has entered into a joint venture agreement, call option agreements and partnership agreements as described in Paragraph 1.3 of Part XIII with certain of its franchisees which give it the right to acquire a 26 per cent. interest in such franchisees in certain circumstances. Pyaterochka has also introduced a new form of the franchise agreement into which new franchisees and franchisees whose existing franchise agreements have expired enter and which provides for a contractual right to purchase equity interests in such franchisees at a purchase price equal to the net assets of such franchise multiplied by the percentage of the acquired equity interest.

1.12 Competition

Pyaterochka believes that as of 31 December 2005 there were three major direct competitors of the Pyaterochka Group operating in the discount stores segment: Magnit, Dixi and Kopeika.

Magnit, operated by Tander, represents the largest store portfolio of any retailer in Russia. Magnit operates small (350 square metres), hard discount stores. As at February 2006, Magnit had 1,600 stores, located in Moscow, St. Petersburg and in small cities in Southern Russia.

Dixi is a hard discounter, which as at March 2006 had 123 stores in Moscow and the Moscow area and 70 stores in St. Petersburg. Limited information is available about Dixi's operations and financial results. Dixi's product range (mostly consisting of grocery items that do not require chilling or freezing) is narrower than that of Pyaterochka.

Kopeika pursues a low price strategy, based on a limited number of SKUs. Its product range consists of 2,500 SKUs including a number of house brands, with 80 per cent. representing food items. As at February 2006, Kopeika operated 131 stores, in certain areas in close proximity to Pyaterochka stores.

As at 31 December 2005, three out of the top 10 grocery distributors in Russia were international operators – Metro, Ramstore and Auchan. Foreign grocery retailers so far have mainly opted to develop large-space outlets – hypermarkets and cash & carry stores (Metro, Auchan, Ramstore and AVA) or supermarkets (Ramstore, Rewe, Auchan and Spar), which are not market segments with which Pyaterochka currently competes head on. There are still no Western discounters in Russia. The Russian retail market, which the Company believes is currently characterised by relatively low wages, high capital costs, high market fragmentation and a low level of development of private label goods, does not, in the view of the Company, present an environment in which major international hard discounters tend to succeed.

Pyaterochka believes that the popularity of wholesale stores and street markets is declining and that these formats are beginning to disappear from the retail market, being replaced by other formats of retail trade including by grocery chains. Pyaterochka also believes that new smaller chains of 10 to 15 stores, including those operating as franchisees of major chains, may be potential acquisition targets. In addition, the Company considers that the share of the market held by newly opened hypermarkets is increasing.

1.13 Information technology

Pyaterochka uses IT systems to support its day-to-day operations and the growth of its business and its existing systems efficiently deal with problems that the management may face in the support and development of business processes for discounter stores, supermarkets, and hypermarkets alike.

The Pyaterochka Group uses hardware developed by the world's leading manufacturers and software developed by Microsoft and Oracle. Like many leading international grocery retailers, Pyaterochka has developed in-house software including its enterprise resource planning (“ERP”) system. In-house developed software represents approximately 95 per cent. of the software used by the Pyaterochka Group. For historical reasons, the Company has a number of management accounting systems which, like in most of the Russian retailers, have been developed by the Company using its internal resources. Use of the Pyaterochka Group's own ERP system facilitates alignment with its business processes and delivers flexibility and scalability, complemented by low development, upgrade and maintenance costs and preservation of sensitive data. Some of the business processes have been efficiently automated on the basis of MBS Axapta.

Where considered necessary, the Pyaterochka Group uses software developed by third parties. In particular, the Pyaterochka Group's new distribution centre in St. Petersburg is equipped with WMS Exceed 4000, a modern warehouse management system that the Company believes enables it to increase the efficiency of its operations and cater for the increased demand resulting from the opening of new stores. Other distribution centres and warehouses are also automated on the basis of WMS Exceed 4000 and MBS Axapta which enables the Company to reduce its operational costs and enhance the quality of its products and customer service. There is also a B2B platform in place used to interact with the Company's suppliers which helps to reduce the operational costs.

The Pyaterochka Group is pursuing greater operating efficiencies by using such tools as standardised document flow, document interchange with the suppliers and end-to-end, cross-functional approaches, ensuring stock availability at the point of sale.

The infrastructure corresponds to the Company's current requirements, and there are archiving systems in place as well as systems for reserving both channels and main servers. The IT department actively participates in the Company's business activity, takes part in and supports all business initiatives which help the Company to preserve its competitiveness.

1.14 IP rights and key trademarks

Under the laws of Russia, the main market in which Pyaterochka operates, the right to use a trademark is acquired upon the trademark's registration with the Russian Federal Service for Intellectual Property, Patents and Trademarks (the "**Russian Patent Agency**"). Speak Global holds the "Pyaterochka" in Cyrillic trademark in Russia (No. 188253) and the graphic logo "5" trademark (No. 188059). These trademarks were registered with the Russian Patent Agency with priority from November 1998. In June 2004, the Pyaterochka Group signed an agreement with United National Financial Corporation, a company organised under the laws of the British Virgin Islands, in relation to the assignment of two other trademarks containing the word "Pyaterochka" in Cyrillic (No. 206576 with priority from December 1999) and the graphic logo "5" (No. 268528 with priority from October 2002) to the Pyaterochka Group. This agreement has been registered with the Russian Patent Authority and therefore has taken effect.

The Pyaterochka Group actively uses "umbrella trademarks" and characteristic designs covering lines of products sold at its stores rather than individual products, to reduce the time and costs involved in trademark registration.

The Pyaterochka Group also owns the "Pyaterochka" trademark in Kazakhstan and Belarus, the "Pyaterochka" trademark and the graphic logo "5" trademark in the Ukraine and has filed five applications for registration of trademarks with the Kazakh intellectual property rights authority.

1.15 Corporate Structure

The Company, which is incorporated in The Netherlands, is the holding company of Pyaterochka and the parent company of the Operating Companies, which are incorporated in Russia and wholly owned by the Company and through which the Pyaterochka Group manages its stores and franchising programme. In March 2005, the Company became the parent company of Speak Global, which is the owner of the Pyaterochka trademark in Russia.

Top management is centralised and Pyaterochka has dedicated management structures for each of the Moscow and St. Petersburg areas. Such management structures in each of the two areas include, among others, professional management teams responsible for purchasing, logistics, construction and development, finance, IT and personnel.

1.16 Insurance

Pyaterochka's insurance policies cover real estate, inventory, equipment and vehicles (including the mandatory drivers' third-party liability insurance as required by Russian law). Other than where required by law, Pyaterochka does not purchase third-party liability insurance. Most (99 per cent.) of the Pyaterochka insurance policies currently in force are with OSAO Ingosstrakh, a leading Russian insurance company.

1.17 Employees

The average number of employees at Pyaterochka (including those working on the basis of outsourcing arrangements) for the years ended 31 December 2005, 2004, 2003 and 2002 was 12,291, 11,559, 11,027 and 7,793, respectively. In 2005, 53 per cent. of the Pyaterochka Group's employees were based in St. Petersburg and 47 per cent. were based in Moscow. As at 31 December 2005, approximately 85 per cent. of employees worked in the stores and approximately 15 per cent. employees worked in logistics, warehouses, administration and management.

To the best knowledge of the Company, none of Pyaterochka's employees belongs to trade unions, labour or workers' syndicates and there are no collective bargaining agreements between any of the Pyaterochka companies and their employees.

PART V. BUSINESS INFORMATION ON PEREKRESTOK

1.1 Overview

Perekrestok is the largest supermarket chain in Russia, both in terms of sales and number of stores, and one of the fastest growing supermarket chains in Russia. As at 31 December 2005, Perekrestok operated a chain of 120 owned stores (90 in 2004) located primarily in Moscow, Nizhni Novgorod, St. Petersburg, other large cities in the European part of Russia and Ukraine with a total net selling space of over 141,495 square metres (102,428 square metres in 2004). In addition, as at 31 December 2005, Perekrestok had nine stores under franchise agreements (four stores in 2004). For the year ended 31 December 2004, the Perekrestok Group reported net sales of approximately US\$660 million (an increase of 77 per cent. over the US\$373 million of net sales reported in 2003), and for the year ended 31 December 2005 reported net sales of approximately US\$1,015 million (an increase of 54 per cent. over the previous year). Perekrestok like-for-like sales increased by 15.7 per cent. in 2004 and by 17.6 per cent. in 2005.

Perekrestok operates a mixture of leased and owned stores, with the majority of these being leased. As at 31 December 2003, 2004, 2005 the breakdown between leased and owned stores was: 2003 – 37 and 27, 2004 – 54 and 36 and 2005 – 73 and 47. Typical lease terms for new supermarkets are 10 – 15 years.

Perekrestok operates three types of store – convenience stores, supermarkets and city hypermarket stores – which provide it with flexibility to grow in different segments of the market. Each type operates under the same “Perekrestok” fascia, although the depth and range of product differs depending on the size of the store. Perekrestok is currently primarily a food retail business, with non-food products activity, although Perekrestok management expects the revenue contribution from non-food products to increase in the future.

While Perekrestok has historically been a mid-market and higher food retailer targeting the Russian middle class, the company has broadened its consumer reach to target consumers at all income levels. The company sells a wide range of everyday grocery lines at “best prices” (a basket of 400-500 products which Perekrestok stores price below its competitors in the local area), including a range of “economy” private label products and price promotions, to target lower-income customers. Perekrestok prides itself on offering customers quality (including a wide range of fresh and ready-to-eat products), convenience (many stores are typically open 24 hours a day, seven days a week), a wide product range, excellent service (including modern, clean and brightly lit stores) and a differentiated and competitive price proposition.

Perekrestok’s multi-type store capability is supported by the fact that there has been substantial investment in its logistics and distribution network, a strong management team, access to quality real estate as well as strong support from its principal shareholder, Alfa Group. As a result, Perekrestok has successfully expanded its operations, from one supermarket in Moscow 10 years ago, to become one of the leading food retailers in Russia.

1.2 History

Perekrestok’s business was founded by Alfa Group and Alexander Kosiyanenko (currently Perekrestok’s CEO) in 1995, opening its first supermarket in Moscow that year. The following year, Perekrestok secured a seven-year US\$42 million loan from EBRD, which helped to finance Perekrestok’s initial growth. Perekrestok was the first Russian food retailer to open its own distribution centre (in 1998, located in Moscow), and in 2002 launched its Hypermarket format and opened its first store outside of Moscow.

From 2002 to 2004, Perekrestok raised substantial capital in order to fund the next stage of its store expansion strategy. In 2003, Templeton Emerging Markets Fund bought a 7.7 per cent. stake in Perekrestok, in what was one of the first private equity deals in Russian retail, and in 2004, Perekrestok secured a three-year US\$75 million international syndicated loan facility (the first transaction of its kind for a Russian food retailer) and raised US\$50 million in new equity from its existing shareholders. During 2005, Perekrestok issued a RUR 1.5 billion bond (US\$52 million) and signed a €125 million unsecured multi-currency syndicated loan with a consortium of international banks.

During 2003 and 2004, Perekrestok doubled the capacity of its Moscow distribution centre, launched its own ready meals manufacturing facility (now supplying more than 70 Perekrestok stores) and doubled its number of stores (from 45 stores at the end of 2002 to 90 stores by the end of 2004) through organic growth (34 stores) and through acquisitions, including the purchase of the SPAR Middle Volga in 2003 and Yaroslavl “365” supermarket chains in 2004. Perekrestok experienced further rapid growth in 2005, opening a further 26 stores in Russia, and entering the Ukrainian food retail market through the acquisition of SPAR Ukraine, a chain of four supermarkets, in April 2005. As at 31 December 2005, Perekrestok operated 120 stores and nine franchised stores.

1.3 Perekrestok Management

Perekrestok has a strong and stable senior management team with extensive local and international work experience, with the management board having a combined tenure of 24 years with the company. Alexander Kosiyanenکو, Chief Executive Officer (“CEO”) and Andrey Rybakov, (Deputy CEO) have both been with Perekrestok since it was founded in 1995. Vitaly Podolsky, Chief Financial Officer (“CFO”), joined Perekrestok in June 2003, having previously worked at A.T. Kearney, Bankers Trust and Ford Motor Company. Perekrestok further strengthened its management board in 2004 by recruiting Pawel Musial (previously Chief Operations Officer (“COO”) of Tesco Poland) as COO responsible for store operations, supply and logistics and marketing.

Recognising the importance of management in supporting the rapid growth of the company, Perekrestok has been active in strengthening its senior management team over the last few years. Aside from the management board, Perekrestok’s senior management team also comprises a number of experienced retailers and international managers. Cesary Pleskacz (responsible for Perekrestok’s Hypermarket format, and previously with Makro Cash & Carry and Metro Cash & Carry) joined in 2004, whilst in 2005 Perekrestok recruited Jaroslaw Lewandowski (Head of Production, and previously with Makro Cash & Carry and Tesco Poland), Zbignew Krajewski (Head of Logistics, and previously with Jant, Metro Cash & Carry and Jewl-Osco) and Viacheslav Kuzmenko (marketing director, and previously with Sun Interbrew Russia). Igor Sotnikov (Sales Director since 2004), who joined Perekrestok in 2001, previously worked at Minolta.

In addition to recruiting externally, Perekrestok is also focused on promoting “home grown” personnel, giving talented employees the opportunity to rise up to the ranks of top management. For example, Ekaterina Stolypina, who joined Perekrestok in 1998 as a supermarket director, was appointed to the position of chief commercial officer in 2006, whilst Alexey Tikhomirov, who joined Perekrestok in 1998 as a sales assistant, was appointed manager of Perekrestok’s largest store in 2006.

Perekrestok also employs a number of retail specialists to advise in connection with specific initiatives, including Frank Dell (Perekrestok board member, and President and Managing Director of Dellmart & Company Inc.), Gary Filyk (a specialist in supermarket IT systems and logistics), Timothy Conlon (previously with Asda, Tesco and Woolworths, who assisted in the design of Perekrestok’s Hypermarket format), Robert Lequy (an expert in the field of logistics and distribution) and John Hardman (previously Chairman of the Board of Asda).

1.4 Operations and Stores

Perekrestok operates three types of store under the “Perekrestok” fascia, which offer the same styling identity, core assortment of SKUs and have the same pricing policy:

- Convenience stores: offering up to 7,500 products with a trading area of approximately 400 - 600 square metres;
- Supermarkets: offering up to 20,000 products with a trading area of approximately either 800, 1200 or 1600 square metres; and
- City Hypermarkets: offering up to 35,000 products with a trading area of approximately 4,000 to 7,000 square metres;

Perekrestok management believes that this multi-type store capability, which mirrors the approach taken by the leading food retailers in Western Europe, such as Tesco and Carrefour, gives the company a number of competitive advantages, including:

- increased market share by covering the full spectrum of shopping needs, ranging from convenience to the weekly shopping;
- greater flexibility to tailor new openings to available sites, thereby increasing the speed at which Perekrestok can expand its operations and hence increase its market share; and
- better leveraging Perekrestok’s distribution and logistics operations, and generating scale benefits in purchasing and marketing.

(a) Convenience Stores

Perekrestok reported 2005 convenience store net sales of US\$134 million¹ and operated 25 convenience stores at 31 December 2005 (2004, 20, and 2003, 8), with total net selling space of 13,544 square metres (2004, 11,124, and 2003, 4,158). Each Perekrestok Convenience store has up to 7,500 SKUs in stock, with food products accounting for approximately 95 per cent. of sales (the remaining 5 per cent. from the sale of household goods). Convenience stores are typically located in residential districts.

(b) Supermarkets

Perekrestok reported 2005 supermarket net sales of US\$704 million¹ and operated 88 supermarket stores at 31 December 2005 (2004, 66, and 2003, 52), with total net selling space of 100,495 square metres (2004, 75,052, and 2003, 59,068). Each Supermarket store has up to 20,000 SKUs in stock and has in-store bakeries and fresh meat and fish counters. Food products account for approximately 85 per cent. of sales. Supermarket stores are typically located in residential districts, close to or in major shopping centres, adjacent to major traffic centres, thoroughfares or major roads.

(c) City hypermarkets

Perekrestok reported 2005 city hypermarket net sales of US\$149 million¹ and operated seven city hypermarket stores at 31 December 2005 (2004, 4, and 2003, 4), with total net selling space of 27,456 square metres. Each city hypermarket store has up to 35,000 SKUs in stock, including various non-food SKUs. Key non-food product categories include clothing, electronics and white goods and other household goods. Food products account for approximately 60 per cent. of sales. Customers will typically drive their cars to shop at Perekrestok city hypermarket stores, all of which are located in shopping centres within the vicinity of residential areas.

(d) Franchise operations

Unlike Pyaterochka and other Russian food retailers, such as Kopeika, Perekrestok does not pursue an active franchising strategy. As at 31 December 2005, only nine stores, all but one of which are located in the Moscow area, are operated under franchise agreements. Franchising is extended into the Russian regions and Ukraine on a selective basis, although Perekrestok management's core strategy is to develop and operate its own stores.

Franchising arrangements are provided by Perekrestok on a "white label" basis, which involves the use of Perekrestok IT systems, infrastructure and purchasing arrangements. However, the "Perekrestok" brand itself is not franchised externally, except for two stores that fully meet Perekrestok's technology and format requirements.

1.5 Pricing and product label strategy

(a) Pricing Strategy

While Perekrestok has historically been a mid-market and higher food retailer targeting the Russian middle class, the company has broadened its consumer reach to target consumers at all income levels. The company sells a wide range of everyday grocery lines at "best prices" (a basket of 400-500 products which Perekrestok stores price below its competitors in the local area), including a range of "economy" private label products and price promotions, to target lower-income customers. Perekrestok prides itself on offering customers quality (including a wide range of fresh and ready-to-eat products), convenience (many stores are typically open 24 hours a day, seven days a week), a wide product range, excellent service (including modern, clean and brightly lit stores) and a differentiated and competitive price proposition.

(b) Private Label Products

Perekrestok views the development of private label goods as an important contributor to the company's future growth and profitability. In 2000, Perekrestok launched its first private label product, and by 31 December 2005

¹ Perekrestok revenues by type of store do not include other revenues such as wholesaling, franchisees and information services.

private label products numbered 580 SKUs, accounting for approximately three per cent. of Perekrestok revenues. Perekrestok management believes there is significant scope to expand its private label product portfolio and further capitalise on Perekrestok's well-known brand name, particularly as customer acceptance of private labels in Russia becomes more widespread, and plans to increase the contribution of private label products to thirteen per cent. of Perekrestok Group revenues in the next few years.

Perekrestok currently operates two ranges of private label products. The "red label" range, which was launched in 2005, constitutes 580 SKUs and is representative of the company's strategy to increase its appeal among lower-income customers. The "blue label" range, which uses the "Perekrestok" brand and targets the middle-income customer, was launched in 2004 and constitutes 522 SKUs.

Private labels offer a number of benefits to both the consumer and the company:

- Perekrestok's private label products are typically priced 10-15 per cent. cheaper than branded products, thus offering the consumer lower prices, generating higher volume sales for the company and increasing customer loyalty; and
- Private label products generate higher margins, thus increasing Perekrestok's profitability.

(c) Loyalty and promotional schemes

Perekrestok has operated a discount card loyalty scheme since 2001. The card is currently held by approximately 100,000 customers who account for between 20 and 25 per cent. of the Perekrestok Group's annual sales. Perekrestok intends to replace its discount card scheme with a loyalty points card scheme at the beginning of 2007.

In 2005, Perekrestok began actively using promotional techniques to reinforce customer perception of low prices, facilitate stock clearances, stimulate customer footfall and increase average basket size. These promotions include the "Mishka" and "Zebra" promotions storecard, and point promotions targeted at equipping schools with computers in the Moscow Region.

Other marketing activities include "Your Perekrestok", a monthly free magazine setting out selected recipes using ingredients found in Perekrestok stores, and an internet site, which promotes all Perekrestok activities and also serves as an announcement board for Perekrestok customers and suppliers.

1.6 Real estate and development of new stores

(a) Real Estate

Perekrestok management believes there are merits in having both leasehold and freehold property. Freehold properties allow the company to benefit from rising property prices (including the ability to sell or sub-let parts of a Perekrestok development) and give management maximum operational flexibility. Leasehold properties, however, are more typical for shopping developments (within which a significant number of Perekrestok's Supermarket and Hypermarket stores are located). In addition, the lower up-front investment required for the opening of leasehold stores gives Perekrestok the financial flexibility to expand at a more rapid rate. As a general principle, however, the decision to lease or to purchase a site is driven by which option represents the best value (or makes more sense from a financial point of view) for Perekrestok.

Perekrestok believes that it is viewed favourably as a partner for real estate developers in Moscow, the Russian regions and Ukraine as Perekrestok stores are an important driver of customer footfall, therefore increasing the attractiveness of other retail units located in proximity to the Perekrestok store. Perekrestok is therefore able to negotiate favourable terms for its leases and renew leases on expiry. Perekrestok's leases are long term, with initial lease terms of at least 10 years (although recent lease agreements typically have lease terms of up to 15 years). Perekrestok usually has the right to terminate a lease unilaterally (with three months' notice) at no penalty, thereby preserving operating and financial flexibility. Perekrestok is also able to negotiate a high degree of operational flexibility under its lease agreements, including the freedom to keep its stores open for 24 hours a day and the ability to carry out alterations or refurbishment within the store.

Historically, Perekrestok has typically negotiated fixed rental terms, although more recently the trend, at the insistence of real estate developers, has been towards variable rental terms linked to store revenues. As at

31 December 2005, rental expense under 73 of Perekrestok's leases (accounting for 60.8 per cent. of net selling space under Perekrestok's leasehold agreements) remains fixed in dollar terms (i.e. with no rental step up) for the duration of the lease. The remaining 28 Perekrestok lease agreements in place as at 31 December 2005 provide for rent to increase in line with store revenue (in US\$ terms).

Lease costs (per square metre of selling space) are lower in the Russian regions and Ukraine, as compared to Moscow and St. Petersburg. In addition to benefiting from a certain number of fixed rate leases, Perekrestok management therefore also expects the rapid expansion into the Russian regions and the Ukraine to result in a reduction in lease costs (as a percentage of Perekrestok Group revenues) in future.

The table below shows the number of leased and owned stores operated by Perekrestok as at 31 December 2005, 2004 and 2003.

	2005	2004	2003
Owned	47	36	27
Leased	73	54	37
Total	120	90	64

In the history of the Perekrestok Group, there have been six leased store closures, of which one was due to the non-renewal of leases by the Perekrestok Group as a result of opening new stores nearby and five were due to the Perekrestok Group's inability to agree an acceptable rent adjustment with the landlord on renewal.

To lower its rental costs and to provide its customers with complimentary services, the Perekrestok Group often (where space permits) sublets some store space to third parties such as mobile phone operators, pharmacy kiosks, newsagents and florists. In 2004, sub-lease income made up approximately 30 per cent. of Perekrestok's reported gross lease expense.

(b) Development of new stores

The development of new stores is a key priority for Perekrestok management, and as at 31 December 2005, Perekrestok employed a team of 27 people dedicated to the task of identifying and developing new sites. This team is sub-divided into a number of smaller teams allocated to, and located in, each regional unit in order to optimise efficiency and flexibility. While Perekrestok has an active search team, Perekrestok frequently receives unsolicited proposals from real estate developers who view Perekrestok as a preferred commercial partner, thereby significantly increasing the number of new store opportunities available to the company at any point in time.

Perekrestok has a strict set of criteria in assessing potential new store locations, including location and suitability to Perekrestok's respective store formats in terms of size and layout, customer demographics (including size of population) and the level of competition in each potential store's surrounding catchment area. In addition, Perekrestok has standard requirements with respect to lease tenure (if a leasehold property), as well as strict financial criteria (or targets) to ensure appropriate allocation of the Perekrestok Group's capital resources.

Perekrestok's development teams have, for each Perekrestok store format, produced standardised designs for the construction of newly built stores. Management believes that this significantly reduces the design, construction and maintenance costs.

Perekrestok's stores are predominantly located in densely populated residential districts, close to underground stations, close to or in major shopping centres, adjacent to major traffic intersections or thoroughfares, or adjacent to major roads.

1.7 Review of purchasing and logistics

(a) Purchasing

As at 31 December 2005, Perekrestok's purchasing team, including administrative staff and Perekrestok's ready-meal production team, consisted of approximately 120 people, of whom approximately 70 people are employed in Perekrestok's central purchasing function in Moscow, with the remaining personnel located in each of Perekrestok's regional units.

Approximately 65 per cent. of Perekrestok's supplies are sourced (and negotiated) centrally to optimise buying benefits, with the remaining 35 per cent., mainly consisting of fresh produce, sourced locally. Contracts with local suppliers are negotiated by the regional purchasing teams, although approval is required from Perekrestok's central purchasing team. Supply and purchase contracts use a standard form (based on Western European best market practice) to minimise complexity, and all payments are handled centrally.

Perekrestok launched an initiative in January 2005 focused on securing better contract terms from its suppliers by rationalising the number of SKUs on offer and reducing the number of Perekrestok suppliers.

Perekrestok management also expects this initiative to improve its terms of credit with its suppliers. Supplier credit (typically 30-40 days compared to the retail industry's average of 50-60 days) is relatively short in Russia, partly because access to financing is limited for suppliers themselves, many of which are relatively small companies. Perekrestok management is targeting extension of supplier terms beyond the current 30-40 days (of cost of good sold) to 40-45 days.

(b) Distribution and logistics

Perekrestok's management believes that profitable growth of the Perekrestok Group's business requires a modern warehousing and logistics capability.

Perekrestok was the first Russian food retailer to invest in its own distribution centre (in 1998), and currently has one state-of-the-art, multi-temperature distribution centre in Moscow (approximately 20,000 square metres of total space, with the capacity to hold up to 5,000 SKUs on permanent storage and up to 8,000 SKUs for transit deliveries) and a fleet of 60 vehicles delivering approximately 25 per cent. of volumes sold by Perekrestok stores (the balance delivered directly to Perekrestok stores by suppliers).

Perekrestok is implementing ambitious plans to develop its distribution capability in Moscow and the Russian regions, with plans to open a 90,000 square metre distribution centre in Moscow, and 20,000 square metre distribution centres in St. Petersburg, Nizhni Novgorod and Samara, by the end of 2006. Management is targeting an increase in the proportion of deliveries from its own distribution centres to 75 per cent. of Perekrestok Group volumes by the end of 2008; the remaining 25 per cent. of deliveries (generally fresh fruit and vegetables) will continue to be supplied directly to Perekrestok stores by third party suppliers, in line with Western European best practice.

Management believes that the development of this distribution capability will result in increased levels of profitability, reduced logistical complexity and a higher level of customer service. Key benefits include:

- A significant reduction in delivery fees charged by suppliers (although part of this financial benefit will be offset by higher operating costs as new distribution facilities come on line);
- A lower number of daily deliveries at each Perekrestok store, which will reduce complexity, administration costs and the number of store personnel required to unload deliveries; and
- A significant increase in stock availability, with Perekrestok management targeting an increase in stock availability from approximately 70 per cent., currently, to over 95 per cent. by 2007.

(c) Supply chain management

Perekrestok management believes that efficient trade logistics gives Perekrestok a major competitive advantage. In 2003, Perekrestok set up a supply chain management department to co-ordinate and control all the stages of logistics chain from supplier to store. This department ensures logistical support for the supply process, including direct imports. Technological monitoring ensures a systematic approach to managing the movement and storage of products in Perekrestok's distribution channels.

Perekrestok believes it will have one of the most efficient and advanced logistic distribution network among retail chains in Russia. As the retail market moves towards saturation, Perekrestok believes that logistic cost efficiency becomes one of the key elements in a company's profitability. Accordingly, the management of Perekrestok understands this and pays great attention to logistics issues. The IT policy of Perekrestok seeks more sophisticated methods of logistic management.

One of the key areas of attention for Perekrestok is the development of technological links with suppliers. Perekrestok is one the first Russian retailers to have started using electronic documents interchange (“**EDI**”) for day-to-day operations with suppliers. In addition, Perekrestok’s team for EDI development and usage is at the core of wider industry efforts to develop a national industrial standard of EDI, which will increase co-ordination between the biggest national suppliers and retailers. Perekrestok believes that EDI usage in supply chains is not only a cost-effective tool but also an effective and accurate way to improve interaction between suppliers and buyers.

1.8 IP rights and key trademarks

The Perekrestok Group owns over seventeen trademarks, including three Ukrainian trademark registrations. All the Perekrestok Group’s trademarks relating to the PEREKRESTOK brand were assigned from TH Perekrestok to PRL on 5 August 2005. TH Perekrestok owns four domain names: perekriostok.ru, perekrestok.ru, perekriostok.com, perekrestok.com.

Center Spar Ukraine has an agreement with Internationale SPAR Centrale B.V. authorising Center Spar Ukraine to use SPAR, EUROSPAR, INTERSPAR and SPAR Express trade names and SPAR trademarks on an exclusive basis in the Ukraine. Center Spar Ukraine has not fully complied with certain of its obligations under the agreement that may result in termination of the agreement.

The Perekrestok Group also operates a number of SPAR stores in the Russian Federation. The Perekrestok Group will lose the right to use the SPAR brand in the Russian Federation with effect from 20 June 2006.

There are plans to rebrand the SPAR stores operated by the Perekrestok Group.

1.9 Corporate structure

Perekrestok, which is incorporated in Gibraltar, is the holding company of the Perekrestok Group. The Perekrestok Group consists of two Gibraltar companies (Perekrestok and PRL, which are wholly owned by Perekrestok), four Cypriot companies (Alpegru, Grasswell, Rathmine and Netherlone which are wholly owned by Perekrestok), one Panamanian company (Panama Sunshine – wholly owned by Perekrestok), one Ukrainian company (Center Spar Ukraine – wholly owned by Perekrestok) and 14 Russian companies.

The Russian companies comprise three companies wholly owned by Perekrestok (TH Perekrestok, Credo-Estate and Rumyantsevo), two companies wholly owned by Rathmine (Sladkaya Zhizn’ and Spar Middle Volga), one company wholly owned by Panama Sunshine (MSKB), a company owned 99 per cent. by TH Perekrestok and one per cent. by Perekrestok (Perekrestok-2000), a company owned 91 per cent. by TH Perekrestok and nine per cent. by Perekrestok 2000 (Loksimer), two companies owned 80 per cent. and 100 per cent. by TH Perekrestok respectively (Mosregioninvest and Discount Invest), a company owned 100 per cent. less one share by Perekrestok 2000 and one share by Discount Invest (STD-Holding), a company owned 99 per cent. by TH Perekrestok and one per cent. by Perekrestok 2000 (Katukovo), a company wholly owned by STD Holding (Zevs-T) and Retail Torg which is owned by four individuals and affiliated to the Stepanov S.N. (General Director of Credo-Estate) and Stroe K.I. (Supervisory Board Member of STD-Holding).

1.10 Employees

The number of employees in the Perekrestok Group for the years ended 31 December 2005, 2004, 2003 and 2002 was 12,689, 9,181, 7,218, and 6,402 respectively. As at 31 December 2005, approximately 10,500 employees worked in the stores, and approximately 2,000 employees worked in administration and management.

Perekrestok values its human resources, and focuses on staff motivation and training. Perekrestok periodically monitors competitors’ compensation packages to ensure that its staff remain fairly remunerated, staff are provided with health insurance, and holiday and sickness packages are above statutory allowances. In addition, a new motivation and incentivisation scheme, based on key performance indicators, is currently being trialled and is planned to be rolled out across the Perekrestok Group.

Perekrestok has its own staff training centre and approximately 5,000 staff each year pass through it on 40 different courses. In Moscow, Perekrestok runs a store especially for the purposes of training its staff. It is planned to expand this programme to cover a further five stores in the course of 2006. Each month, approximately 20 staff from the Perekrestok central office attend training courses to increase their qualifications.

To the knowledge of Perekrestok management, none of Perekrestok's employees belong to trade unions, labour or workers' syndicates and there are no collective bargaining agreements between any of the Perekrestok companies and their employees.

1.11 Competition

The management of Perekrestok believes that as of 31 December 2005 there were two principal competitors operating in the supermarket segment (Seventh Continent and Ramstore), and two principal competitors operating in the hypermarket segment (Auchan and Lenta).

Seventh Continent is one of Russia's largest supermarket chains, with 2005 net sales of US\$714 million. Seventh Continent had 111 stores at the end of 2005, including 41 "Seventh Continent Universam" supermarkets, 27 "Seventh Continent 5 Stars" supermarkets, 42 convenience stores and 1 hypermarket. Seventh Continent's stores are primarily located in the centre of Moscow, although with the recent acquisition of supermarket chain Altyn, it has also established a presence in Kaliningrad and the surrounding region.

Ramstore, controlled by Turkish retailer Migros Türk, was one of the first foreign chains to enter the Russian market in the late 1990s. Ramstore had 52 stores at the end of 2005 and estimated 2005 net sales of US\$543 million. Ramstore is primarily a supermarket operator, although also competes in the hypermarket segment.

Lenta is a St. Petersburg-based chain, operating through 10 hypermarkets at the end of 2005. Lenta reported sales of US\$649 million in 2005, and plans to continue expanding in St. Petersburg and also enter the Nizhni Novgorod market.

Auchan, the French hypermarket chain, entered the Russian market in 2002. To date, Auchan had focused its expansion strategy in the Moscow region, and at the end of 2005 operated 7 hypermarkets. In addition to opening additional stores in Moscow, Auchan plans to expand into other major Russian cities such as St. Petersburg, Yekaterinburg and Nizhniy Novgorod.

(b) Operating and Financial Review

Investors should read the following operating and financial review relating to the years ended 31 December 2005, 2004 and 2003 contained in this paragraph 1.1(b) and paragraph 1.1(e) together with the Pyaterochka Financial Statements and the Notes thereto included in this document. The Pyaterochka Financial Statements have been prepared in accordance with IFRS.

The following operating and financial review includes forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements” and “Risk Factors” for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this document.

(i) Overview

Pyaterochka is one of the largest grocery retailers in Russia in terms of sales and as at 1 January 2006 operated a chain of 347 stores, of which 159 stores were located in the Moscow area and 167 stores were located in the St. Petersburg area, and 21 stores in the Yekaterinburg area. In addition, the Pyaterochka Group’s franchisees operated 404 stores under the Pyaterochka brand in Russian regions outside the Moscow and St. Petersburg areas and in the neighbouring countries of Kazakhstan and Ukraine as at 1 January 2006.

For the year ended 31 December 2005, the Pyaterochka Group had revenue of approximately US\$1.4 billion and its customers made over 222 million visits to the Pyaterochka Group’s stores. In 2005, the stores operating under the Pyaterochka brand had gross banner sales of US\$2,084 million.

The Pyaterochka Group’s stores are “soft” discount stores, open seven days a week from 9am to 10pm, offering up to 5,000 products that cover the day-to-day needs of customers, including food and non-food products, fresh produce and perishables. The average size of the Pyaterochka Group’s stores is approximately 1,000 square metres, with a selling area of approximately 600 square metres.

(ii) Significant factors affecting results of operations

(1) New store openings

During the periods under review, the Pyaterochka Group has pursued an aggressive store expansion strategy, with the number of its stores growing from 189 stores (2003) to 347 stores (2005). The following table presents the number of stores operated by the Pyaterochka Group as at 31 December 2003, 2004 and 2005, presented by area:

<u>Area</u>	<u>As at 31 December</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Moscow area	97	124	159
St. Petersburg area	92	111	167
Yekaterinburg	—	—	21

Historically, the Pyaterochka Group has expanded its store chain by leasing stores from third parties, as well as by purchasing existing stores from third parties or building new stores. In recent years, the share of stores that are newly built by the Pyaterochka Group has been increasing. The following table presents the number of stores operated by the Pyaterochka Group as at 31 December 2003, 2004 and 2005, presented by type (newly built by the Pyaterochka Group, purchased from a third party or leased from a third party):

<u>Type of store</u>	<u>As at 31 December</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Built	10	21	42
Purchased	55	76	137
Leased	124	138	168

The Pyaterochka Group’s store expansion strategy has affected the Pyaterochka Group’s results of operations in each period under review by increasing revenue, cost of sales and selling, general and administrative expenses, thus making period to period comparison difficult. The Pyaterochka Group’s store roll-out programme also

affected capital expenditure as compared to the relevant prior period. In 2005, the average cost to the Pyaterochka Group of purchasing a store property was approximately US\$2.9 million in the Moscow area and approximately US\$ 2.0 million in the St. Petersburg area. In the same period, the average cost of building a new store (including any costs associated with the opening of the new store) was US\$1.3 million in the St. Petersburg area and US\$1.4 million in the Moscow area. In 2005, the average annual rent payment made by the Pyaterochka Group in respect of its leased stores was approximately US\$255 per square metre of store space in Moscow area and US\$196 per square metre of store space.

(2) Macroeconomic trends

Nearly all of the Pyaterochka Group's operations are located in Russia. As a result, Russian macroeconomic trends significantly influence the Pyaterochka Group's results of operations. Since 1998, Russia has experienced economic growth, with declining consumer price inflation (which, according to Rosstat, declined from 12.0 per cent in 2003 to 10.9 per cent in 2005), decreasing unemployment levels (which, according to Rosstat, decreased from 12.6 per cent in 1999 to 7.5 per cent in 2005). The Company believes that these macroeconomic factors have contributed to the increasing purchasing power of the Pyaterochka Group's customer base, which resulted in increasing sales volumes and in continuing although declining growth in like-for-like revenue at the Pyaterochka Group's stores during the periods under review. In addition, the strengthening of the Rouble against the US dollar and consumer price inflation in the periods under review have contributed to the Pyaterochka Group's increased like-for-like revenue in US dollar terms.

(3) Expansion of the Pyaterochka Group's franchise operations

The Pyaterochka Group receives revenue from its franchisees as up-front, one-time payments and monthly fees under the franchise agreements (for a discussion of the terms of the Pyaterochka Group's franchise agreements and payments made thereunder, see "Business Information on Pyaterochka – Franchise operations"). The first franchised stores under the Pyaterochka brand were opened at the end of 2002. The number of the Pyaterochka Group's franchisees increased significantly in 2003 to 2005, with the number of franchised stores in operation under the Pyaterochka brand reaching 404 as at 1 January 2006. The increase in the number of the Pyaterochka Group's franchise stores has resulted in an increase in payments received by the Pyaterochka Group as up-front payments and monthly fees under the franchise agreements, which has contributed to the Pyaterochka Group's revenue in 2003, 2004 and 2005.

In the medium term, the Company expects to enter into additional franchise agreements and for the number of stores operated by its franchisees to increase. The Pyaterochka Group aims, through the expansion of its franchise programme, to have by the end of 2012 approximately 30 franchisees operating 1,200 franchise stores located in Russian regions and neighbouring countries. The expansion of the Pyaterochka Group's franchise network is expected to contribute further to the Pyaterochka Group's revenue.

(4) Purchasing policies

The Company believes that the Pyaterochka Group is a significant client to many of its suppliers, including international FMCG companies. This status is further enhanced as the Pyaterochka Group achieves most of its revenue from a limited range of products. The Company believes that, during the periods under review, the Pyaterochka Group has been able to negotiate favourable terms with its suppliers using this purchasing power. Such favourable supply terms consisted primarily of lower prices, as well as rebates and bonuses payable by suppliers. These favourable supply terms have the effect of reducing the Pyaterochka Group's cost of sales.

(5) Private label goods

The Company believes that the Pyaterochka Group is currently a leader in the sale of private label goods in the Russian grocery market, with sales of private label goods representing approximately 10 per cent of the Pyaterochka Group's revenue in 2005. The Company has plans to increase the percentage of private label goods it sells to 50 per cent of its revenue during the next several years. Due to the absence of significant marketing and advertising components in the cost of private label goods, their increasing presence in the product range sold by the Pyaterochka Group during the periods under review has had the effect of improving the Pyaterochka Group's

gross margin. The gross margin generated by private label goods is on average significantly higher than that generated by other branded goods sold in the Pyaterochka Group's stores.

(6) Improved warehousing and distribution

During the periods under review, the Pyaterochka Group has been improving the efficiency of its warehousing and distribution arrangements by increasing the volume of deliveries to its stores from its distribution centres in St. Petersburg and Moscow, as opposed to direct distributions from its suppliers. This has resulted in lower delivery costs and, consequently, affected cost of sales. In 2003, the Pyaterochka Group built a 10,500 square metres consolidated warehouse and distribution centre in St. Petersburg. In the first quarter of 2006 the second distribution centre in St. Petersburg was put into operation increasing the capacity in that area to 18,900 square metres. In Moscow, the Pyaterochka Group currently uses four rented warehouses with a total space of 22,952 square metres and is building the first phase of the Group's own warehouse with a total space of 30,000 square metres. In 2005, deliveries via the Pyaterochka Group's distribution centres represented 50 per cent of all deliveries to the Pyaterochka Group's stores in the St. Petersburg area, and 50 per cent of all deliveries in the Moscow area. The Company believes that the introduction and use of the Pyaterochka Group's own newly built distribution capacity as opposed to rented warehouses has helped to reduce the Pyaterochka Group's selling, general and administrative expenses by reducing costs incurred as rent for leased warehouses and wages for additional personnel employed to handle direct deliveries from suppliers to the Pyaterochka Group's stores and to operate the leased warehouses.

Beginning 2005 the Pyaterochka Group requires its suppliers to deliver their goods to the Pyaterochka Group's distribution centres (and not directly to the stores) and to pay the Pyaterochka Group a logistical bonus (in the form of a rebate offsetting the supply price or as a payment to the Pyaterochka Group). Such bonuses are reducing the Pyaterochka Group's cost of sales and increasing the Pyaterochka Group's gross margin.

(7) Seasonality

The Pyaterochka Group's revenue is affected by seasonality, peaking in December and reaching its lowest levels in July through August, when a significant portion of the Pyaterochka Group's customer base leaves the urban areas of Moscow and St. Petersburg for summer vacations and/or temporarily relocates to suburban and countryside areas located in relative proximity to Moscow and St. Petersburg. The Company believes that the Pyaterochka Group has been able to partially offset the seasonal declines in the sales of its stores located in urban areas through increased sales at the stores located in city areas adjacent to such suburban and countryside areas. From July through to August, the Pyaterochka Group also intensifies its advertising and marketing activities, particularly with respect to items traditionally bought by customers for use at summer houses.

(iii) Results of Operations

(1) Explanation of key items in the profit and loss statement

Revenue

The Pyaterochka Group derives revenue from sales of food and non-food products at its stores and from royalties from its franchisees under the relevant franchise agreements. Revenue represents the total amount, less discounts and allowances for returns under the Pyaterochka Group's money back policy and excluding value added tax, receivable by the Pyaterochka Group from these sources. The table below presents a breakdown of the Pyaterochka Group's revenue by product category, for the year ended 31 December 2005:

Category	Per cent of total revenue, for the year ended 31 December 2005
Milk/dairy	17
Meat	16
Alcohol	11
Non-food	11
Fruit and vegetables	8
Confectionary/bakery	7
Other	30

Cost of sales and gross profit

Cost of sales includes the actual cost of products from suppliers for products sold and for products lost to shrinkage (which can be due to products being lost in transportation and storage, stolen or defective) offset by, among other things, supplier rebates and bonuses.

Gross profit represents revenue less cost of sales.

Selling, general and administrative expenses

Selling, general and administrative expenses include: (i) selling costs, including store staff payroll and related taxes, rent (net of rent income received from third-party sub-lessees), utilities costs, security costs and other store property costs; (ii) distribution costs, including rents payable in respect of leased warehouses, warehouse maintenance costs, warehousing and transportation staff wages and related taxes, packaging and transportation costs; (iii) administrative costs, including administrative staff wages and related taxes; (iv) insurance costs; (v) depreciation and amortisation; (vi) share-based compensation expenses; and (vii) other expenses (which include, among other things, fees of the Pyaterochka Group's banks, legal advisers and auditors and the cost of obtaining necessary certificates with respect to the goods sold in the Pyaterochka Group's stores).

In addition, the Operating Companies make royalty payments to Speak Global for the use of the Pyaterochka trademark in Russia. Such royalty payments are calculated at the rate of approximately 5 per cent of the Operating Companies' annual turnover. The aggregate amount of the royalty payments made by the Operating Companies in 2005, 2004 and 2003 was approximately US\$71.7 million, US\$58.0 million and US\$10.5 million, respectively. Royalty payments are not shown in the Pyaterochka Financial Statements due to intra-Pyaterochka Group elimination on consolidation (see Note 4 to the Pyaterochka Financial Statements).

Operating profit

Operating profit is gross profit less selling, general and administrative expenses.

Profit before income tax

Profit before income tax is operating profit less net finance costs, foreign currency exchange gains or losses, but before application of tax. Finance costs principally comprise interest paid on the Pyaterochka Group's outstanding debt facilities and finance leases and related charges and expenses associated with the arrangement and maintenance of these facilities.

Income tax

The principal tax liability of the Pyaterochka Group as shown in the Pyaterochka Financial Statements for the periods under review consists of Dutch, Russian and Cypriot corporation income taxes.

As a legal entity incorporated in The Netherlands, the Company had its taxable profits taxed at a rate of 34.5 per cent for the years ended 31 December 2005, 2004 and 2003 (the first 22,689 Euro of taxable profits in each year was taxed at 29.0 per cent). The Operating Companies paid income taxes in accordance with the laws of the Russian Federation at a rate of 24.0 per cent in each of the three years under review. Speak Global had its taxable profits (which largely consisted of the royalty payments received from the Operating Companies (see "– Selling, general and administrative expenses") less deductible expenses) taxed in accordance with the laws of Cyprus at the rate of 4.25 per cent (which was the rate applicable to companies qualifying as "international business companies" under the laws of Cyprus) in each of the three years under review.

The charge for taxation is based on profit for each period and takes account of deferred tax attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes as well as tax provisions.

Net profit

Net profit is profit before income tax less income taxes.

(2) *Year ended 31 December 2005 compared to the years ended 31 December 2004 and 31 December 2003*

Revenue

The Pyaterochka Group's revenue increased by 22.9 per cent, to US\$1,359.3 million, for the year ended 31 December 2005 from US\$1,105.8 million for the year ended 31 December 2004, and by 45.6 per cent for the year ended 31 December 2004 from US\$759.6 million for the year ended 31 December 2003. The increase in revenue was principally the result of opening new stores (the number of the Pyaterochka Group's stores increased to 347 as at 1 January 2006 from 235 as at 31 December 2004 and 189 as at 31 December 2003, resulting in an increase in the Pyaterochka Group's aggregate selling area to approximately 196,000 square metres as at 31 December 2005 from approximately 146,000 square metres as at 31 December 2004 and approximately 116,000 square metres as at 31 December 2003). The increase in revenue due to organic growth in 2005 was partially offset by a declining like-for-like trend (see below) as well as decreased revenue per square metre due to increased market competition. Revenue received from franchisees increased by 53.1 per cent to US\$7.5 million in the year ended 31 December 2005 from US\$4.9 million in the year ended 31 December 2004 and by 28.9 per cent. for the year ended 31 December 2004 from US\$3.8 million for the year ended 31 December 2003.

During 2005 the Pyaterochka Group's like-for-like revenue in US dollar terms changed as follows: Moscow area like-for-like revenue increased by 4.8 per cent due to 9.4 per cent increase in average basket and 3.7 per cent decrease in customer traffic. St Petersburg area like-for-like revenue decreased by 5.9 per cent due to 13.5 per cent decrease in customer traffic and 9.0 per cent increase in average basket. The decrease in customer traffic is due to increased market competition. The increase in like-for-like revenue in Moscow was due primarily to inflation-driven price increases, as well as strengthening of the Rouble against the US dollar in 2005 as compared to 2004.

Cost of sales

Cost of sales increased by 18.6 per cent, to US\$1,020.8 million, for the year ended 31 December 2005 from US\$860.4 million for the year ended 31 December 2004 and by 40.4 per cent for the year ended 31 December 2004 from US\$612.9 million for the year ended 31 December 2003. The increase in cost of sales over the period under review was due to the overall increase in sales volumes driven by new store openings and acquisitions, which was partially offset by increased supplier bonuses.

Gross profit

The Pyaterochka Group's gross profit increased by 37.9 per cent, to US\$338.5 million, for the year ended 31 December 2005 from US\$245.4 million for the year ended 31 December 2004 and by 67.3 per cent for the year ended 31 December 2004 from US\$146.7 million for the year ended 31 December 2003. The increase in gross profit was due to higher revenue and an increase in the Pyaterochka Group's gross margin, by 2.7 percentage points to 24.9 per cent for the year ended 31 December 2005 from 22.2 per cent for the year ended 31 December 2004, and by 2.9 percentage points for the year ended 31 December 2004 from 19.3 per cent for the year ended 31 December 2003. This increase in the gross margin was primarily a result of lower prices paid to the Pyaterochka Group's suppliers and an increase in supplier bonuses, as well as, to a lesser extent, an increased share of private label sales in the overall revenue of the Pyaterochka Group.

Selling, general and administrative expenses

The following table sets forth a breakdown of the Pyaterochka Group's selling, general and administrative expenses for the three years ended 31 December 2005, 2004 and 2003:

	For the year ended 31 December		
	2005	2004	2003
	(US\$ thousands)		
Payroll and related taxes	88.6	59.0	40.8
Pension costs	6.8	6.5	1.8
Rent	26.1	21.6	14.2
Depreciation and amortization	25.8	14.6	8.4
Advertising and promotional expenses	3.7	9.0	7.0
Repair and maintenance	8.2	6.2	5.3
Security	6.7	4.0	2.3
Package and raw materials	4.6	3.5	3.0
Utilities	5.2	3.3	1.5
Transportation	4.8	2.9	1.5
Insurance	0.6	2.0	4.0
Taxes, other than income tax	1.9	1.3	0.8
Loss on disposal of property, plant and equipment	2.3	0.1	0.1
Share-based payments expense	5.4	—	—
Other expenses	10.5	14.9	12.6
Total	201.2	148.9	103.3

The Pyaterochka Group's selling, general and administrative expenses increased by 35.1 per cent, to US\$201.2 million, for the year ended 31 December 2005 from US\$148.9 million for the year ended 31 December 2004 and by 44.1 per cent for the year ended 31 December 2004 from US\$103.3 million for the year ended 31 December 2003. In 2005, the increase in expenses was primarily due to an increase in payroll costs and related taxes (resulting primarily from salary increases partially due to increased numbers of employees), an increase in rent (resulting from the opening of stores by the Pyaterochka Group on premises leased from third parties), an increase in depreciation expense (resulting from an increase in the number of stores operating on properties owned by the Pyaterochka Group, acquisition of immovable property and new equipment for its stores and warehouses). Introduction of the Option Plan in 2005 also contributed to the increase of selling, general and administrative expenses in 2005. As a percentage of revenue, the aggregate selling, general and administrative expenses of the Pyaterochka Group represented 14.8 per cent, 13.5 per cent and 13.6 per cent for the years ended 31 December 2005, 2004 and 2003, respectively.

Operating profit and operating margin

Operating profit increased by 42.3 per cent, to US\$137.3 million, for the year ended 31 December 2005 from US\$96.5 million for the year ended 31 December 2004 and by 122.4 per cent for the year ended 31 December 2004 from US\$43.4 million for the year ended 31 December 2003. This was due to a substantial increase in the Pyaterochka Group's gross profit and gross margin (which was largely due to the factors discussed above), offset in part by an increase in selling, general and administrative expenses as discussed above. As a result of the lower increase in the Pyaterochka Group's selling, general and administrative expenses and cost of sales (due to offset with increased supplier bonuses received) in 2005 as compared to previous years under review, the Pyaterochka Group's operating margin (calculated as the percentage ratio of the Pyaterochka Group's operating profit to its revenue) increased to 10.1 per cent in 2005 from 8.7 per cent in 2004 and from 5.7 per cent in 2003.

Profit before income tax

Profit before income tax increased by 28.0 per cent, to US\$120.2 million, for the year ended 31 December 2005 from US\$93.9 million for the year ended 31 December 2004, and by 120.9 per cent for the year ended 31 December 2004 from US\$42.5 million for the year ended 31 December 2003. The increase was due primarily to the substantial increases in the Pyaterochka Group's operating profit, marginally offset by an increase in finance costs and foreign currency exchange loss for the year ended 31 December 2005.

Finance costs increased by US\$9.8 million, or 264.9%, in the year ended 31 December 2005 compared to the year ended 31 December 2004, and by US\$2.5 million, or 208.3%, in the year ended 31 December 2004 compared to the year ended 31 December 2003. The increase of finance costs in 2005 compared to 2004 is explained by significant interest cost incurred by the Pyaterochka Group on the credit facilities arranged in 2005, namely, with Raiffeisenbank and Sberbank, and issue of bonds.

Income tax expense

The Pyaterochka Group's provision for income tax for the three years under review is set forth in the following table:

	For the year ended 31 December		
	2005	2004	2003
	(US\$ mln)		
Current tax	28.9	19.0	8.0
Deferred tax	0.1	0.5	0.7
Total income tax expense	29.0	19.5	8.7

Income tax expenses increased by 48.7 per cent, to US\$29.0 million, for the year ended 31 December 2005 from US\$19.5 million for the year ended 31 December 2004 and by 124.1 per cent for the year ended 31 December 2004 from US\$8.7 million for the year ended 31 December 2003. This increase was due to an increase in the Pyaterochka Group's taxable profit. The effective tax rate for the years 2004 and 2003 was flat and amounted to 20.8 per cent and 20.5 per cent, respectively. In 2005, the effective rate of income tax for the Pyaterochka Group increased to 24.1 per cent. In 2005 the Pyaterochka Group provided for certain potential tax liabilities for the total amount of US\$5.2 million. See "Risk Factors – Recent Transactions of the Pyaterochka Group may give rise to significant additional tax liability in the Netherlands."

Net profit

Net profit increased by 22.6 per cent, to US\$91.2 million, for the year ended 31 December 2005 from US\$74.4 million for the year ended 31 December 2004 and by 120.1 per cent for the year ended 31 December 2004 from US\$33.8 million for the year ended 31 December 2003. This was principally a result of growth in the Pyaterochka Group's profit before income tax, offset in part by a substantial increase in the Pyaterochka Group's income costs and income tax expense.

(iv) Critical accounting policies

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

The Company believes that the following policies are the Pyaterochka Group's critical accounting policies. For a summary of all of the Pyaterochka Group's significant accounting policies, including the critical accounting policies discussed below see Notes 2 and 4 to the Pyaterochka Financial Statements.

(1) Principles of consolidation

The Pyaterochka Group consolidated financial statements include the accounts of the Company, the Operating Companies and Speak Global, the owner of the Pyaterochka trademark.

Before 2005 the Pyaterochka Group presented its financial statements on a combined and consolidated basis, including Speak Global, a company under common control with Pyaterochka Holding N.V. In March 2005 the shareholders of the Group contributed their 100% interest in the shares of Speak Global to the Company. The Pyaterochka Financial Statements for the years ended 31 December 2005, 2004 and 2003 included elsewhere in this document include the accounts of Speak Global as if it had always been part of the Group. Pyaterochka believes that consolidated financial statements for the Company, the Operating Companies and Speak Global for the years before contribution present more meaningful information than the separate statements of these companies. The separate statements of these companies could not stand on their own, because transactions might be unduly influenced by controlling shareholders. However, the Pyaterochka Financial Statements did not fully portray the legal structure of the Pyaterochka Group in 2004 and 2003. See “Business Information on Pyaterochka – Corporate Structure”.

(2) Inventories

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

Net realisable value is determined after a detailed review by the Company, taking into consideration, among other factors, inventory levels, inventory turnover, marketing programs and current margins. The Company considers the assumptions used in the calculation to be reasonable and supportable in the existing economic environment.

The Pyaterochka Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of sales. The provision is adjusted annually to reflect the historical trend of the actual physical inventory count results. Historically, shrinkage has not been volatile.

(3) Impairment of tangible and intangible non-current assets

At each balance sheet date, the Pyaterochka Group reviews the carrying amounts of its tangible non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. Such assessments are a subjective matter.

Goodwill related to acquisitions made by the Pyaterochka Group in 2005 will be tested for impairment at 31 December 2006. The testing will require an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

(4) Supplier bonuses

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

Bonuses received from suppliers are presumed to be a reduction in prices paid for the relevant products and are recognised in cost of sales as the related inventory is sold unless specific criteria are met to recognise the bonus as revenue or for treatment as reimbursement of special incremental, identifiable costs.

Supplier bonuses are only recorded if evidence of a binding arrangement exists with the supplier and receipt is both probable and estimable. The most common bonuses offered by suppliers are (i) volume-based allowances based on the quantity of products sold to customers or purchased from the supplier, and (ii) promotional allowances, which relate to cooperative advertising and market development efforts. These allowances are normally recognised as a reduction of cost of goods sold when the underlying products are sold.

Pyaterochka believes that the accounting estimate relating to supplier bonuses is a critical accounting policy, since it requires estimates. First, the Pyaterochka Group needs to make an estimate of the portion of supplier allowances earned during a period that should be allocated to cost of sales and inventory, respectively. The Pyaterochka Group makes this estimate by allocating a portion of the supplier bonus to inventory based on the

turnover of the goods sold. Second, if supplier bonuses are based on achieving certain volume targets, the supplier bonuses are recognised when the Pyaterochka Group achieves the volume targets.

(5) Share-based payments

The Pyaterochka Group issues options to certain employees which give the employees the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments.

Share-based payment transactions, or the components of such transactions, are accounted for as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to the cash or equity instruments were granted. The fair value is determined using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

(6) Taxation

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

The Company believes that the Pyaterochka Group has adequately provided for tax liabilities in the Pyaterochka Financial Statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

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

(v) Disclosures about Market Risk

(1) Interest rate risk

The Pyaterochka Group is exposed to interest rate risk on those of its borrowings that have a variable interest rate (exposing the Pyaterochka Group to the risk of short-term interest fluctuations or "interest cash flow risk"). The Pyaterochka Group does not hedge its interest rate risk.

(2) Foreign currency risk

The Pyaterochka Group incurs currency risk on borrowings that are denominated in a currency other than Roubles. The Pyaterochka Group does not hedge its foreign currency risk.

The Pyaterochka Financial Statements are expressed in US dollars, and the Pyaterochka Group intends that its IFRS financial statements to be prepared in subsequent periods will be denominated in US dollars. Most of the Pyaterochka Group's revenue and expenses are denominated and settled in Roubles.

(3) Credit risk

The Pyaterochka Group is exposed to credit risk on a small proportion of its revenue, as most of its sales are on a cash basis. The Pyaterochka Group's credit risk is primarily attributed to its receivables and prepayments. The credit risk attributable to receivables and prepayments is limited due to a diversified base of counterparties. The Pyaterochka Group does not hedge its credit risk.

(c) Trend Information

The Company expects that the factors that have affected the Pyaterochka Group's results of operations in prior years will continue to affect the Pyaterochka Group's results in 2006.

(i) Macroeconomic trends

Please refer to paragraph 1.1(b)(ii)(2) of this Part for details of macroeconomic trends which influence the Pyaterochka Group's results of operations.

(ii) Pyaterochka Trends

(1) Current trading and prospects

(a) Net Sales

Pyaterochka's net sales reached US\$439 million (not audited or reviewed) in the first quarter of 2006, an increase of 41 per cent. compared with net sales of US\$312 million (not audited or reviewed) in the first quarter of 2005.

(b) Like-for-Like Sales

The Pyaterochka Group experienced an increase of 7 per cent. in like-for-like sales in the first quarter of 2006, comprised of a 15 per cent. increase in like-for-like sales in Moscow and 1 per cent. decrease in like-for-like sales in St. Petersburg.

The Pyaterochka Group like-for-like sales increase of 7 per cent. in the first quarter of 2006 was composed of a 10 per cent. increase in the average basket and a 3 per cent. decrease in traffic. The Moscow like-for-like sales increase of 15 per cent. was composed of a 12 per cent. increase in the average basket and a 3 per cent. increase in traffic during the first quarter of 2006. In St. Petersburg, the like-for-like sales decrease of 1 per cent. was composed of an 8 per cent. increase in the average basket and an 8 per cent. decrease in traffic during the first quarter of 2006.

(c) Store Openings

During the first quarter of 2006, Pyaterochka opened 26 new stores in its core markets, with 18 new stores opened in Moscow (including 13 stores acquired in December 2005 from a franchisee of Kopeika), and 8 new stores opened in St. Petersburg. In addition, 18 stores in Yekaterinburg have been company-managed since 1 January 2006 (21 acquired less 3 closed down in the first months of 2006).

As of 31 March 2006, Pyaterochka operated a total of 371 stores in its core markets of Moscow (177 stores), St. Petersburg (175 stores) and Yekaterinburg (18).

Pyaterochka's franchisees added 35 new stores during first quarter of 2006, and operated a total of 439 stores across 15 regions of Russia, Ukraine and Kazakhstan as of 31 March 2006. Pyaterochka currently has master franchise agreements in 20 regions of Russia, Ukraine and Kazakhstan.

There were 810 stores operated under the PYATEROCHKA brand as of 31 March 2006.

(2) Other trends

The Pyaterochka Group has initiated discussions with certain of its better performing franchisees with a view to commencing a programme of purchasing substantial equity stakes in the companies operating the businesses of its franchisees. The Pyaterochka Group has entered into a joint venture agreement, call option agreements and partnership agreements as described in paragraph 1.3 of Part XIII with certain of its franchisees which give it the right to acquire a 26 per cent. interest in such franchisees in certain circumstances. Pyaterochka has also introduced a new form of the franchise agreement into which new franchisees and franchisees whose existing franchise agreements have expired enter and which provides for a contractual right to purchase equity interests in such franchisees at a purchase price equal to the net assets of such franchise multiplied by the percentage of the

acquired equity interest. The Company expects that this programme, if carried out, will affect the Pyaterochka Group's financial results in the future by, among other things, increasing capital expenditure.

The Pyaterochka Group has expanded its distribution capacity in St. Petersburg and has 18,900 square metres of distribution centre space and is building a new distribution centre in the Moscow area, approximately 10 kilometres outside of Moscow (first phase of 30,000 square metres expected to be completed in 2006, with a subsequent expansion to 50,000 square metres expected in 2007). Construction of a second Pyaterochka distribution centre in the St. Petersburg area of 15,000 square metres is planned in 2007. As a result of these distribution capacity expansion plans, by the end of 2008, the Pyaterochka Group expects to be able to supply directly from its distribution centres approximately 75 to 80 per cent. of its deliveries in both the Moscow area and the St. Petersburg area. The Company expects that this expansion of the Pyaterochka Group's distribution capacity, if achieved, should increase the efficiency of the Pyaterochka Group's operations and have a further positive effect on the Pyaterochka Group's cost of sales and selling, general and administrative expenses. Furthermore, on the basis of the cost savings achieved through the opening of the new distribution centre in St. Petersburg, the Company estimates that the introduction of a modern distribution centre in the Moscow area should reduce the Pyaterochka Group's transportation and delivery costs in that area by up to 40 per cent.

(3) Recent events

On 30 December 2005, the Pyaterochka Group acquired the franchise network of OOO Economtorg, including 21 stores, a warehouse, a regional head office and a training centre. The value of the transaction was approximately US\$14.5 million, comprising a cash payment for 100 per cent of Economtorg's shares and the value of the assumed debt. On 20 March 2006, OOO Economtorg, the legal entity acquired in Yekaterinburg, was sold to third parties for a nominal value. As a result of this transaction three stores being rented by OOO Economtorg were closed.

On 18 January 2006, Pyaterochka announced that it had signed an agreement on 17 January 2006 to acquire a 26 per cent equity stake in its franchise operator in the Chelyabinsk region of Russia, Ural-Agro-Torg. Pyaterochka's operating subsidiary, Agro-Star, has agreed to purchase the 26 per cent stake, for a cash payment of RUR43.5 million (approximately US\$1.5 million). Ural-Agro-Torg operates 29 stores in the Chelyabinsk region. This transaction is the first step towards the creation of a "cluster" of operations in the Ural region. Pyaterochka has also signed agreements outlining steps for further consolidation of its operations in the Chelyabinsk region. According to these agreements, by 1 June 2006, Pyaterochka and the majority owner of Ural-Agro-Torg will combine the operations of the Chelyabinsk and Yekaterinburg regions, to form a new entity, Pyaterochka Ural.

Pyaterochka Ural will be owned 51% by Pyaterochka and 49% by the majority shareholder in Ural-Agro-Torg, the Chelyabinsk franchisee. The majority shareholder of Ural-Agro-Torg will contribute his 74% stake in Ural-Agro-Torg in exchange for a 49% stake in Pyaterochka Ural. Agro-Star, the Pyaterochka Group's subsidiary, will contribute its 26% stake in Ural-Agro-Torg, as well as 100% of the equity in the company's Yekaterinburg operations, in exchange for a 51% stake in Pyaterochka Ural.

(d) Financial Information

(i) Independent Auditors

The Pyaterochka Financial Statements for the three years ending 31 December 2005 and related Notes prepared in accordance with IFRS have been audited by the independent auditors, ZAO Deloitte & Touche CIS. The report of ZAO Deloitte & Touche CIS, which is without qualification or reference to a matter of fundamental uncertainty appears below.

(ii) Independent Auditors' Report

To the Shareholders of Pyaterochka Holding N.V.:

We have audited the accompanying consolidated balance sheet of Pyaterochka Holding N.V. and its subsidiaries (the "Group") as at December 31, 2005, 2004 and 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2005, 2004 and 2003 and the consolidated results of the Group's operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

/s/ ZAO Deloitte & Touche CIS

14 April 2006

(iii) Audited Pyaterochka Financial Statements

PYATEROCHKA HOLDING N.V.
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	2005 ‘mln USD	2004 ‘mln USD	2003 ‘mln USD
REVENUE	7	1,359.3	1,105.8	759.6
COST OF SALES		(1,020.8)	(860.4)	(612.9)
GROSS PROFIT		338.5	245.4	146.7
Selling, general and administrative expenses	25	(201.2)	(148.9)	(103.3)
OPERATING PROFIT		137.3	96.5	43.4
Finance costs, net	14	(13.5)	(3.7)	(1.2)
Foreign currency exchange (loss)/gain		(3.6)	1.1	0.3
PROFIT BEFORE INCOME TAX		120.2	93.9	42.5
INCOME TAX	18	(29.0)	(19.5)	(8.7)
NET PROFIT		91.2	74.4	33.8
Earnings per share attributable to the equity holders, USD per share (Note 17):				
Basic		2.38	1.94	0.88
Diluted		2.34	1.94	0.88

The notes on pages 77 to 101 form an integral part of these consolidated financial statements.

PYATEROCHKA HOLDING N.V.
CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER 2005, 2004 AND 2003

	Notes	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	8	421.0	236.9	153.1
Long-term prepayments		7.3	4.0	8.9
Goodwill	9	46.8	—	—
Other long-term assets	10	9.0	—	—
Deferred tax assets	18	7.0	2.9	1.5
		491.1	243.8	163.5
CURRENT ASSETS:				
Inventories	11	55.5	39.8	36.4
Receivables and prepayments	12	64.9	117.4	32.4
Cash	13	56.5	14.7	14.3
		176.9	171.9	83.1
TOTAL ASSETS		668.0	415.7	246.6
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES:				
Share capital	15	45.5	45.7	43.0
Share premium		6.0	6.2	5.9
Retained earnings		144.3	114.1	56.4
		195.8	166.0	105.3
NON-CURRENT LIABILITIES:				
Long-term borrowings	19	220.0	38.5	11.7
Long-term liability for share-based payments	26	5.4	—	—
Long-term obligations under finance leases	20	3.8	3.5	1.4
Deferred tax liability	18	16.2	12.3	9.8
		245.4	54.3	22.9
CURRENT LIABILITIES:				
Trade accounts payable	22	177.9	123.9	78.5
Short-term loans and overdrafts	21	6.8	32.5	9.9
Short-term obligations under finance leases	20	1.7	1.0	0.1
Other payables and accrued expenses	23	40.4	38.0	29.9
		226.8	195.4	118.4
TOTAL EQUITY AND LIABILITIES		668.0	415.7	246.6

The notes on pages 77 to 101 form an integral part of these consolidated financial statements.

PYATEROCHKA HOLDING N.V.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	Share capital 'mln USD	Share premium 'mln USD	Retained earnings 'mln USD	Total shareholders' equity 'mln USD
Balance at 1 January 2003		0.4	5.4	61.6	67.4
Share issue		42.6	—	(42.6)	—
Dividends paid	16	—	—	(2.3)	(2.3)
Net profit		—	—	33.8	33.8
Translation adjustment		—	0.5	5.9	6.4
Balance at 31 December 2003		43.0	5.9	56.4	105.3
Distribution to shareholders	27	—	—	(17.9)	(17.9)
Dividends paid	16	—	—	(3.4)	(3.4)
Net profit		—	—	74.4	74.4
Translation adjustment		2.7	0.3	4.6	7.6
Balance at 31 December 2004		45.7	6.2	114.1	166.0
Distribution to shareholders	27	—	—	(59.6)	(59.6)
Net profit		—	—	91.2	91.2
Translation adjustment		(0.2)	(0.2)	(1.4)	(1.8)
Balance at 31 December 2005		45.5	6.0	144.3	195.8

The notes on pages 77 to 101 form an integral part of these consolidated financial statements.

PYATEROCHKA HOLDING N.V.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	2005 ‘mln USD	2004 ‘mln USD	2003 ‘mln USD
OPERATING ACTIVITIES:				
Profit before income tax		120.2	93.9	42.5
Adjustments for:				
Depreciation of property, plant and equipment		25.7	14.5	8.2
Amortization of long-term prepayments		0.1	0.1	0.2
Loss on disposal of property, plant and equipment		2.3	0.5	0.3
Loss on disposal of long-term prepayments		0.1	—	
Change in provision for doubtful receivables		3.0	0.8	0.5
Change in provision for inventory losses		0.2	0.4	(0.2)
Share-based payments expense		5.4	—	—
Interest expense		13.3	4.5	1.3
Operating cash flow before movements in working capital		170.3	114.7	52.8
Decrease / (increase) in receivables and prepayments		5.8	(28.3)	(15.8)
Increase in inventories		(14.2)	(3.7)	(14.6)
Increase in trade accounts payable		49.9	45.6	31.4
(Decrease) / increase in other payables and accrued expenses		(5.5)	0.9	25.7
Cash provided by operations		206.3	129.2	79.5
Income tax paid		(23.0)	(16.6)	(7.2)
Interest paid		(11.9)	(4.8)	(0.9)
Net cash provided by operating activities		171.4	107.8	71.4
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(165.2)	(78.7)	(63.3)
Construction in progress		(33.1)	(22.4)	(5.8)
Financing provided to related party		—	(31.6)	—
Proceeds on disposal of property, plant and equipment		2.8	1.4	1.2
Long-term prepayments		(3.4)	(0.3)	(3.1)
Proceeds on disposal of long-term prepayments		1.6	—	—
Acquisition of subsidiaries	24	(74.6)	—	—
Acquisition of other long-term assets		(9.0)	—	—
Net cash used in investing activities		(280.9)	(131.6)	(71.0)
FINANCING ACTIVITIES:				
Proceeds from borrowings		206.8	68.5	33.6
Repayments of borrowings		(40.3)	(21.5)	(27.4)
Net (decrease) / increase in bank overdrafts		(5.4)	(0.6)	4.7
Repayment of obligations under finance leases		(1.2)	(1.6)	(0.7)
Dividends paid		—	(3.4)	(2.3)
Distributions to shareholders		—	(17.9)	—
Net cash from financing activities		159.9	23.5	7.9
EFFECT OF FOREIGN EXCHANGE RATES ON CASH		(8.6)	0.7	0.4
NET INCREASE IN CASH		41.8	0.4	8.7
CASH, beginning of year		14.7	14.3	5.6
CASH, end of year		56.5	14.7	14.3

The notes on pages 77 to 101 form an integral part of these consolidated financial statements.

PYATEROCHKA HOLDING N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

1. GENERAL INFORMATION

Pyaterochka Holding N.V. (the “Company”) is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as the holding company for the group of companies that operate under the “Pyaterochka” name in St. Petersburg, Moscow and Ekaterinburg. The principal activities of the subsidiaries (the “Group”) are described in Note 6.

Following the initial public offering of the Company’s shares in May 2005, 12,284,901 of its shares (or 32.07% of the total shares outstanding) are listed on the London Stock Exchange in the form of Global Depository Receipts (GDRs), each GDR representing an interest of 0.25 in a share. After the listing, the Company’s principal controlling shareholders Tayleforth N.V. and Marie-Carla Corporation N.V. owned 48.72% and 19.21% of the Company’s equity, respectively. The ultimate beneficial interests are held indirectly by A. Rogachev, A. Girda, T. Franus and I. Vidiaev through Marie-Carla Corporation N.V. and Tayleforth N.V. The joint beneficial interest of A. Rogachev and A. Girda is more than 50%.

The Group’s principal business activities are within the Russian Federation. As of 31 December 2005, 2004 and 2003 the “Pyaterochka” retail chain operated in St. Petersburg and in Moscow under the brand name “Pyaterochka” with the following number of stores:

	31.12.2005	31.12.2004	31.12.2003
St. Petersburg	167	111	92
Moscow	159	124	97
Ekaterinburg (acquired on 30 December 2005)	21	—	—

In addition, as of 31 December 2005 the Group’s franchisees operated 404 stores under the Pyaterochka brand in the Russian regions outside the Moscow and St. Petersburg areas and in the neighboring countries, Kazakhstan and Ukraine.

The average numbers of employees of the Group for the years ended 31 December 2005, 2004 and 2003 were 12,291, 11,559 and 11,027, respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of presentation – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Pyaterochka Holding N.V. maintains its accounting records in Euro (EUR) in accordance with the accounting and reporting regulations of the Netherlands. Speak Global Ltd. maintains its accounting records in Cyprus pounds in accordance with the accounting and reporting regulations of Cyprus. All other operating entities of the Group maintain their accounting records in Russian Rubles in accordance with the accounting and reporting regulations of the Russian Federation. Statutory accounting principles and procedures in Russia differ substantially from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared using the Group’s statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Before 2005 the Group presented its financial statements on a combined and consolidated basis, including Speak Global Ltd, a company under common control with Pyaterochka Holding N.V. In March 2005 the shareholders of the Group contributed their 100% interest in the shares of Speak Global Ltd to the Company. These consolidated financial statements include the accounts of Speak Global Ltd as if it had always been part of the Group.

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

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

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

	USD/RUB
Average rate for 2005	28.2933
31 December 2005	28.7825
Average rate for 2004	28.8100
31 December 2004	27.7487
Average rate for 2003	30.6800
31 December 2003	29.4545

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following new or revised standards and interpretations issued by International Accounting Standards Board became effective for the Group’s 2005 annual financial statements:

IAS 1 (revised) “Presentation of Financial Statements”

IAS 2 (revised) “Inventories”

IAS 8 (revised) “Accounting Policies, Changes in Accounting Estimates and Errors”

IAS 10 (revised) “Events after the Balance Sheet Date”

IAS 16 (revised) “Property, Plant and Equipment”

IAS 17 (revised) “Leases”

IAS 21 (revised) “Effect of Changes in Foreign Exchange Rates”

IAS 24 (revised) “Related Party Disclosures”

IAS 27 (revised) “Consolidated and Separate Financial Statements”

IAS 28 (revised) “Investments in Associates”

IAS 31 (revised) “Interests in Joint Ventures”

IAS 32 (revised) “Financial Instruments: Disclosure and presentation”

IAS 33 (revised) “Earnings per Share”

IAS 36 (revised) “Impairment of Assets”

IAS 38 (revised) “Intangible Assets”

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

IAS 39 (revised) “Financial Instruments: Recognition and Measurement”

IAS 40 (revised) “Investment Property”

IFRS 2 “Share-based Payments”

IFRS 3 “Business Combinations”

IFRS 4 “Insurance Contracts”

IFRS 5 “Non-current Assets Held for Sale”

IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”

IFRIC 2 “Members’ Shares in Co-operative Entities and Similar Instruments”

Following the adoption of IAS 1 (revised) and public comments by the International Financial Reporting Interpretations Council (“IFRIC”) the Group changed its classification of certain items of income and expense such as gains/losses from disposal and impairment of non-current assets and other similar items. Such items are now included in arriving at the Group’s operating result. Comparative information has been restated to comply with current year’s presentation.

Except for the presentational changes described above, the adoption of the new or revised standards and interpretations has not resulted in significant changes to the Group’s accounting policies. Certain additional disclosures were provided by the Group as required by the new standards. Certain of the new standards are applied to transactions and affect the amounts reported in the current year as follows.

IFRS 2 “Share-based payment” – This requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of IFRS 2, the Group did not have a share-based payments program. The Standard therefore applies to share options granted in 2005.

In 2005, the impact of share-based payments is a net charge to income of USD 5.4 million. At 31 December 2005, the liability recognized for share-based payments amounted to USD 5.4 million.

The share-based payment expense has been included in selling, general and administrative expenses in the income statement.

IFRS 3 “Business combinations” – IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004. Therefore, the transactions to which the new Standard has been applied are the acquisitions of LLC Beta Estate (a retail chain in St. Petersburg) in June 2005 and the Ekaterinburg franchisee in December 2005.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 “Impairment of Assets”, impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortization of goodwill.

At the date of authorization of these financial statements, the following new standards and interpretations were in issue but not yet effective:

IFRS 6 “Exploration for and Evaluation of Mineral Resources”

IFRS 7 “Financial Instruments: Disclosures”

IAS 39 Amendments: “The Fair Value Option”, “Hedges of Forecast Intragroup Transactions”, “Financial Guarantee Contracts”

IAS 19 (revised) “Employee Benefits”

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IFRS 4 Amendment “Financial Guarantee Contracts”

IFRIC 4 “Determining whether an Arrangement contains a Lease”

IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”

IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”

IFRIC 7 “Applying the Restatement Approach under IAS 29”

IFRIC 8 “Scope of IFRS 2”

IFRIC 9 “Reassessment of Embedded Derivatives”

The Group’s management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations – The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”, which are recognized and measured at fair value less costs to sell.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill – Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Foreign currency transactions – Transactions in currencies other than the functional currency are initially recorded at the rates of exchange 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 differences are recognized in the consolidated income statement.

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FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

Revenue recognition – The Group generates and recognizes sales to retail customers at the point of sale in its stores. In addition, the Group recognizes income from franchisee fees based on contractual arrangements over the term of the contracts. The up-front non-refundable franchise fees received by the Group are deferred and recognized over the standard contractual term of 10 years. Revenues are measured at the fair value of the consideration received or receivable.

Discounts earned by customers through loyalty cards, are recorded by the Group as a reduction of the sales price at the time of the sale. Revenues are recognized net of value added tax.

Property, plant and equipment – Property, plant and equipment is stated at cost, except as stated below.

Where historical cost information was not available, management used valuations performed by independent professionally qualified appraisers to arrive at the fair value cost as of the date of initial application of IFRS, which was 1 January 2002.

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.

Depreciation is computed under the straight-line method utilizing the useful lives of the assets determined by independent appraisers and over the estimated useful economic lives of assets, for those acquired subsequent to valuation, as follows:

Buildings	20-50 years
Refrigerating equipment	7-10 years
Vehicles	5-7 years
Other equipment	3-5 years

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. Loans to certain entities which are established solely to administer construction projects for the Group are classified as construction in progress. The Group normally acquires full ownership of such entities on completion of construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

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

Long-term prepayments – Long-term prepayments represent up-front payments for the lease of land and are amortized over the term of the lease, which is 49 years.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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

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

Leased assets are depreciated over their estimated useful economic lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset. Rents paid under operating leases are charged to the consolidated income statement as incurred.

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

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of sales. The provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results.

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

Bonuses received from suppliers are presumed to be reduction in prices paid for the product and are recognized in cost of sales as the related inventory is sold unless specific criteria are met to recognize the bonus as revenue or for treatment as reimbursement of special incremental, identifiable costs.

Receivables and prepayments – Receivables and prepayments are stated at original cost after deducting an allowance for uncollectible amounts.

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

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

Borrowing costs – Before 2005 the Group capitalized the borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. During 2005 the Group changed its accounting policy in respect of the recognition of borrowing costs. From 2005 all borrowing costs are recognized as an expense in the period in which they are incurred. Management believes that this treatment will result in a less judgmental treatment and a more transparent presentation of the Group's finance costs. The impact of the application of the new policy was not material and thus no adjustments were made in respect of the prior years.

Trade and other payables – Liabilities for trade and other short-term amounts payable are stated at their nominal value.

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

Income taxes – Income taxes for the Group entities have been computed in accordance with the laws of the respective jurisdictions. They are based on the results for the year as adjusted for items that are non-assessable or non-tax deductible. Income tax expense includes any adjustments to provisions in respect of management's estimates of additional amounts payable as a result of disputes with the tax authorities over the Group's compliance with tax legislation.

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, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs – The operating entities of the Group contribute to the Russian Federation state pension, medical and social insurance and employment funds on behalf of all its current employees. Any related expenses are recognized in the consolidated income statement as incurred. There is no unfunded element at the balance sheet date.

Earnings per share – Earnings per share have been determined using the weighted average number of Pyaterochka Holding N.V. shares outstanding during the reporting periods.

Dividends – Dividends are recognized at the date they are declared by the shareholders in general meeting. Retained earnings legally distributable by the Group are based on amounts available for distribution in accordance with applicable legislation and as reflected in the statutory financial statements of the individual entities that make up the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Share-based payments – The Group issues options to certain employees which give the employees the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments.

Share-based payment transactions, or the components of such transactions, are accounted for as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to the cash or equity instruments were granted. The fair value is determined using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

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A liability equal to the portion of the services received is recognized at the current fair value determined at each balance sheet date. The Group records an expense, based on its estimates of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

At the date of settlement, the Group will remeasure the liability to its fair value. If the Group issues equity instruments on settlement rather than paying cash, the liability will be transferred directly to equity, as the consideration for the equity instruments issued.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, which are described in Note 4, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (in addition to those involving estimations, which are dealt with below).

Recognition of supplier bonuses – In accounting for supplier bonuses received by the Group the Group makes an assumption that all such supplier bonuses are related to the performance of the Group in the reporting period.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill – Goodwill related to the current year's acquisitions will be tested for impairment at 31 December 2006 which will require an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Compliance with tax legislation – As discussed further in Note 30 compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities.

6. SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Speak Global Ltd	Republic of Cyprus, Nicosia	100	100	Trade mark owner and property management
LLC Agroaspekt	Russia, Moscow	100	100	Trade operator
LLC Agroavto	Russia, Moscow	100	100	Logistic operator
CJSC Remtransavto	Russia, Moscow	100	100	Property management
LLC Pyaterochka 2005	Russia, Moscow	100	100	Property management
LLC Agrotorg	Russia, St Petersburg	100	100	Trade operator
CJSC Agrostar	Russia, St Petersburg	100	100	Logistic operator
CJSC Zeiser	Russia, St Petersburg	100	100	Property management
LLC Beta Estate	Russia, St Petersburg	100	100	Property management
LLC Pyaterochka Finance	Russia, St Petersburg	100	100	Bonds issuer
LLC Ural Retail	Russia, Ekaterinburg	100	100	Trade operator
LLC Economtorg	Russia, Ekaterinburg	100	100	Trade operator
LLC Legion	Russia, Ekaterinburg	100	100	Property management

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The subsidiaries were established between 1997–2005.

As part of its capital investments in new store construction the Group acquires 100% ownership in entities which hold title to respective properties. These entities are subsequently legally merged into the Group’s operating companies when the construction phase is complete. Individually these subsidiaries are not significant to the Group.

As of 31 December 2003, the Group included companies that were in nominal ownership of some of the Group’s employees in addition to the direct ownership interest held through the Group company, LLC Agrotorg. Based on contractual arrangements with the nominal shareholders 100% of the equity of the following companies was consolidated by the Group:

- LLC Pyaterochka Plus;
- LLC Foodsale;
- LLC Shop Pyaterochka 501;
- LLC Shop Pyaterochka 502.

Speak Global Ltd. is a limited liability company established in 2001 under the laws of Cyprus, the company owns the trademark “Pyaterochka”.

During the year ended 31 December 2004 LLC Foodsale and LLC Shop Pyaterochka 501 were merged under the name LLC Foodsale and the Group increased its direct shareholdings in LLC Pyaterochka Plus, LLC Foodsale and LLC Shop Pyaterochka 502 to 100% by acquiring shares from the nominal shareholders of these companies. These transactions had no material effect on the combined and consolidated financial statements of the Group.

In March 2005, the Group disposed of its shareholdings in LLC Pyaterochka Plus, LLC Foodsale, and LLC Pyaterochka Shop 502 to a party under common control (Note 27 details the transfer of assets to the Carousel Group).

In March 2005 the shareholders of the Group contributed their 100% interest in the shares of Speak Global Ltd to the Company.

In June 2005, the Group acquired a 100% interest in LLC Beta estate (the owner of the Kopeika network of retail trading) which operates 18 retail stores in St. Petersburg region under the Kopeika name (see Note 24 for the details).

On 30 December 2005 the Group acquired a 100% interest in its franchise operator in Ekaterinburg (the Southern Urals region of Russia) – LLC Ural Retail, LLC Legion and LLC Economtorg. As of 31 December 2005 the acquired franchisee operated 21 stores under the Pyaterochka brand (Note 24).

7. REVENUE

The Group’s operations are located in Moscow, St. Petersburg and Ekaterinburg. The following table provides an analysis of the Group’s sales by geographical market where the products and services are sold.

	Year ended 31.12.2005 ‘mln USD	Year ended 31.12.2004 ‘mln USD	Year ended 31.12.2003 ‘mln USD
Moscow (revenue from retail operations)	643.6	517.9	313.2
St Petersburg (revenue from retail operations)	708.2	583.0	442.6
St Petersburg (revenue from franchise operations)	7.5	4.9	3.8
	1,359.3	1,105.8	759.6

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The Ekaterinburg operations were acquired on 30 December 2005 therefore no amounts were recognized in the consolidated income statement for the 2005.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of 31 December 2005, 2004 and 2003 consisted of the following:

	Land and buildings 'mln USD	Refrigerating equipment 'mln USD	Vehicles 'mln USD	Other equipment 'mln USD	CIP 'mln USD	Total 'mln USD
Cost						
At 1 January 2003	43.2	8.9	1.4	10.0	25.0	88.5
Additions	—	—	—	—	69.2	69.2
Disposals	—	(0.8)	(0.1)	(0.9)	—	(1.8)
Transfers	43.5	8.1	0.7	13.1	(65.4)	—
Translation adjustment	5.2	1.0	0.1	1.3	2.0	9.6
At 31 December 2003	91.9	17.2	2.1	23.5	30.8	165.5
Additions	28.9	2.5	0.9	—	56.1	88.4
Disposals	(0.5)	(0.8)	(0.3)	(1.6)	—	(3.2)
Transfers	31.7	3.5	0.6	14.3	(50.1)	—
Translation adjustment	7.8	1.2	0.2	1.7	1.9	12.8
At 31 December 2004	159.8	23.6	3.5	37.9	38.7	263.5
Additions	63.7	4.1	0.2	5.9	127.1	201.0
Acquired on acquisition of subsidiaries	23.3	—	—	2.6	—	25.9
Disposals	(5.5)	(0.1)	(0.3)	(1.1)	—	(7.0)
Transfers	67.8	8.7	1.4	15.9	(93.8)	—
Translation adjustment	(8.2)	(1.1)	(0.1)	(1.7)	(2.0)	(13.1)
At 31 December 2005	300.9	35.2	4.7	59.5	70.0	470.3
Accumulated depreciation						
At 1 January 2003	(0.7)	(0.7)	(0.2)	(2.5)	—	(4.1)
Charge for the year	(2.1)	(1.2)	(0.2)	(4.7)	—	(8.2)
Eliminated on disposals	—	—	—	0.3	—	0.3
Translation adjustment	(0.1)	—	—	(0.3)	—	(0.4)
At 31 December 2003	(2.9)	(1.9)	(0.4)	(7.2)	—	(12.4)
Charge for the year	(3.6)	(1.9)	(0.4)	(8.6)	—	(14.5)
Eliminated on disposals	—	0.2	0.1	1.1	—	1.4
Translation adjustment	(0.3)	(0.1)	—	(0.7)	—	(1.1)
At 31 December 2004	(6.8)	(3.7)	(0.7)	(15.4)	—	(26.6)
Charge for the year	(7.4)	(5.8)	(1.0)	(11.5)	—	(25.7)
Eliminated on disposals	0.2	—	—	1.7	—	1.9
Translation adjustment	0.4	0.2	—	0.5	—	1.1
At 31 December 2005	(13.6)	(9.3)	(1.7)	(24.7)	—	(49.3)
Net book value						
At 31 December 2003	89.0	15.3	1.7	16.3	30.8	153.1
At 31 December 2004	153.0	19.9	2.8	22.5	38.7	236.9
At 31 December 2005	287.3	25.9	3.0	34.8	70.0	421.0

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At 31 December 2005, 2004 and 2003, refrigerating equipment and vehicles include assets held under a number of finance lease agreements (Note 20). At the end of the lease term the Group takes automatic ownership of the assets. The net book value of the leased refrigerating equipment at 31 December 2005, 2004 and 2003 was USD 8.3 million, USD 6.0 million and USD 2.3 million, respectively. The net book value of the leased vehicles at 31 December 2005, 2004 and 2003 was USD 1.4 million, USD 0.9 million and USD nil, respectively.

At 31 December 2005, 2004 and 2003 property, plant and equipment with a net book value of USD 43.1 million, USD 38.3 million and USD 20.2 million, respectively were pledged to secure certain loans granted to the Group (Notes 19 and 21).

9. GOODWILL

	‘mln USD
Cost	
At 1 January 2005	—
Arising on acquisition of subsidiaries	46.8
Carrying amount at 31 December 2005	46.8

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	Acquisition of subsidiaries ‘mln USD	Translation movement ‘mln USD	31.12.2005 ‘mln USD
21 stores in Ekaterinburg (former franchisee)	9.6	—	9.6
18 stores in St Petersburg (former Kopeika)	36.8	0.4	37.2
	46.4	0.4	46.8

10. OTHER LONG-TERM ASSETS

Other long-term assets comprise a prepayment of the USD 9 million made for the purchase of LLC “Set’ Roznichnoi Torgovli” – a franchise operator of the Kopeika retail chain in Moscow and the Moscow region with a total of 25 stores (Note 29).

11. INVENTORIES

Inventories as of 31 December 2005, 2004 and 2003 consisted of the following:

	31.12.2005 ‘mln USD	31.12.2004 ‘mln USD	31.12.2003 ‘mln USD
Merchandise	56.1	40.2	36.4
Less: valuation allowance	(0.6)	(0.4)	—
Total	55.5	39.8	36.4

At 31 December 2005, 2004 and 2003 merchandise with an approximate book value of USD 16.0 million, USD 38.7 million and USD 5.0 million, respectively, were pledged to secure loans granted to the Group (Notes 19 and 21).

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12. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments as of 31 December 2005, 2004 and 2003 consisted of the following:

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
VAT reimbursable	39.8	27.3	16.5
Other receivables and prepayments	5.6	11.1	10.1
Advances paid	19.9	7.2	5.4
Advances paid to related parties (Note 27)	0.2	0.4	0.6
Promissory notes receivable	—	2.2	—
Income tax receivable	1.4	0.7	0.3
Other taxes receivable	2.4	1.0	0.1
Receivables from related parties (Note 27)	—	66.3	—
Loan receivable from related parties (Note 27)	—	2.6	—
Provision for doubtful accounts	(4.4)	(1.4)	(0.6)
Total	64.9	117.4	32.4

Management considers that the carrying amount of receivables and prepayments approximates their fair value.

13. CASH

Cash as of 31 December 2005, 2004 and 2003 consisted of the following:

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Petty cash	1.3	0.7	0.5
Cash in banks, RUB accounts	42.8	3.4	9.5
Cash in banks, USD and other accounts	0.4	5.2	0.4
Cash in transit	12.0	5.4	3.9
Total	56.5	14.7	14.3

Cash in transit represents cash collected by the bank from the Group's stores as of the end of the working day and not deposited into the bank accounts as of the relevant period end.

14. FINANCE COSTS, NET

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Interest income	(0.6)	(0.8)	(0.1)
Interest expense relating to finance lease obligations	1.2	3.7	1.1
Other interest expense	12.9	0.8	0.2
Finance costs, net	13.5	3.7	1.2

15. SHARE CAPITAL

As of 31 December 2005, 2004 and 2003 the issued and fully paid share capital consisted of:

	Nominal par value	Number of shares issued and fully paid	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Pyaterochka Holding N.V.	EUR 1	38,306,785	45.5	45.7	43.0

The Company has one class of ordinary share which carries no right to fixed income.

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16. DIVIDENDS

During the years ended 31 December 2005, 2004 and 2003 the Group declared and paid dividends of USD nil, USD 3.4 million (USD 0.09 per share) and USD 2.3 million (USD 0.06 per share), respectively.

17. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders is based on the following data:

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
<i>Earnings</i>			
Earnings for the purposes of basic earnings per share	91.2	74.4	33.8
Effect of dilutive potential ordinary shares	—	—	—
Earnings for the purposes of diluted earnings per share	91.2	74.4	33.8
<i>Number of shares</i>			
Weighted average number of ordinary shares for the purposes of basic earnings per share	38,306,785	38,306,785	38,306,785
Effect of dilutive potential ordinary shares:			
Employee share options	721,165	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	39,027,950	38,306,785	38,306,785

18. INCOME TAX

The statutory tax rate effective in the Russian Federation, the location of the majority of the Group's entities, was 24% in the periods ended 31 December 2005, 2004 and 2003. The foreign entities of the Group pay income taxes in their respective jurisdictions.

The taxable profits of Pyaterochka Holding N.V., a legal entity incorporated in the Netherlands, are taxed at a rate of 34.5% for the periods ended 31 December 2005, 2004 and 2003. The taxable profits of Speak Global Ltd., a legal entity incorporated in Cyprus, are taxed at 4.25% for the periods ended 31 December 2005, 2004 and 2003.

The Group's provision for income tax for the periods ended 31 December 2005, 2004 and 2003 is as follows:

	2005 'mln USD	2004 'mln USD	2003 'mln USD
Current tax	28.9	19.0	8.0
Deferred tax	0.1	0.5	0.7
Total income tax expense	29.0	19.5	8.7

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

The movement in the Group's deferred tax position is as follows:

	2005 'mln USD	2004 'mln USD	2003 'mln USD
Net liability at the beginning of the year	9.4	8.3	6.9
Charged to income statement for the year	0.1	0.5	0.7
Currency adjustment	(0.3)	0.6	0.7
Net liability at the end of the year	9.2	9.4	8.3

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The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2005, 2004 and 2003 is presented below:

	2005 'mln USD	2004 'mln USD	2003 'mln USD
Deferred tax assets			
Accrued expenses	1.1	0.8	0.1
Provision for doubtful receivables	2.3	0.3	0.2
Provision for inventory losses	0.2	0.4	
Difference in depreciable value of property, plant and equipment	3.1	1.4	1.0
Other adjustments	0.3	—	0.2
Total	7.0	2.9	1.5
Deferred tax liabilities			
Difference in depreciable value of property, plant and equipment	16.2	12.3	9.8
Total	16.2	12.3	9.8

The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group's income statement:

	2005 'mln USD	%	2004 'mln USD	%	2003 'mln USD	%
Profit before income tax	120.2		93.9		42.5	
Theoretical income tax at statutory rate	28.8	24%	22.5	24%	10.2	24%
Adjustments due to:						
Effect of income, taxed at rates different from standard	(12.2)	(10%)	(8.9)	(9%)	(2.6)	(6%)
Tax effect of expenses that are not deductible in determining taxable profit	12.4	10%	5.9	6%	1.1	3%
Income tax expense	29.0	24%	19.5	21%	8.7	21%

19. LONG-TERM BORROWINGS

	Currency	Annual interest rate (actual at 31 December 2005)	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Raiffeisenbank	USD	9.24% / 8.19%	36.7	19.6	10.0
Sberbank	RUB	11.6%	—	8.3	—
Sberbank	RUB	14.0%-15.0%	15.8	8.6	1.6
Sberbank	RUB	16%	—	1.4	0.8
Sberbank	RUB	11.5%-12.5%	—	4.0	—
Sberbank	RUB	10.5%	17.9	—	—
Bonds 1 st issue	RUB	11.45%	52.2	—	—
Bonds 2 nd issue	RUB	9.3%	104.2	—	—
Carmel Alliance Limited	USD	5.5%	—	—	2.1
			226.8	41.9	14.5
Less current portion of long-term loans (Note 21)			(6.8)	(3.4)	(2.8)
Total long-term loans			220.0	38.5	11.7

Raiffeisenbank – In September 2003, the Group entered into two credit agreements with Raiffeisenbank for an aggregate amount of USD 10.0 million. In September and January 2005 and January 2004, the Group entered into five additional credit agreements with Raiffeisenbank for an aggregate amount of USD 7.5 million,

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USD 12.5 million and USD 9.9 million, respectively. Loans received in 2004 and 2003 bear interest of LIBOR+5.25% (average rate is 9.24%) and are being repaid in quarterly installments. These loans will be fully repaid by August 2008. For these loans the Group has already started to make quarterly repayments. Loans received in 2005 bear interest of LIBOR+4.85% (average rate is 8.19%) are repayable in quarterly installments starting in April 2006 and will be fully repaid by January 2010. As of 31 December 2005 and 31 December 2004, USD 36.7 million and USD 19.6 million, respectively, were outstanding under these agreements. Property, plant and equipment with a book value of USD 35.3 million and USD 19.4 million were pledged to collateralize the outstanding balances as of 31 December 2005 and 31 December 2004, respectively.

Sberbank – In July 2004, the Group entered into a loan agreement with Sberbank for RUB 230.0 million (equivalent to USD 8.0 million as of 31 December 2005) to finance its working capital. The loan bore interest of 11.6% per annum and was fully repaid in 2005. As of 31 December 2004 the outstanding balance was USD 8.3 million.

In 2003-2004, the Group entered into several credit facilities with Sberbank to finance its capital expenditures. In November 2003, the Group entered into a credit facility in the amount of RUB 130.0 million (equivalent to USD 4.5 million as of 31 December 2005) redeemable in quarterly installments starting in March 2008 and maturing in November 2008. In July 2004, the Group entered into a credit facility for RUB 124.0 million (equivalent to USD 4.3 million as of 31 December 2005) redeemable in a quarterly installments starting in December 2008 and will be fully repaid in July 2009. In 2005 the Group entered into an additional agreement with Sberbank for RUB 200.0 million (equivalent to USD 6.9 million as of 31 December 2005) redeemable in quarterly installments starting in September 2009 and maturing in September 2010. The credit facilities bear interest from 14.0% to 15.0% per annum. As of 31 December 2005, 2004 and 2003 USD 15.8 million, USD 8.6 million and USD 1.5 million, respectively, were outstanding under these agreements.

In September 2002, the Group entered into credit facilities of RUB 70.5 million (equivalent to USD 2.4 million as of 31 December 2005) maturing in September 2007. The credit facility bore interest of 16% per annum. During the reporting period the loan was repaid in full. As at 31 December 2004 and 2003 USD 1.4 million and USD 0.8 million, respectively, were outstanding under this agreement.

In July 2004, the Group entered into a credit facility with Sberbank of up to RUB 170.0 million (equivalent to USD 5.9 million as of 31 December 2005) to finance its working capital. Interest rate on this credit facility was 11.5%-12.5%. The loan which was to mature in January 2006 was repaid in full in 2005. As at 31 December 2004 USD 4.0 million was outstanding under this agreement.

In August and November 2005, the Group entered into credit facilities with Sberbank of up to RUB 250.0 million and RUB 354.2 million (equivalent to USD 8.7 million and USD 12.3 million as of 31 December 2005), respectively to finance its working capital. Interest rate on these credit facilities is 10.5%. Loans mature in January and May 2007, respectively. As at 31 December 2005 USD 8.6 million and USD 9.3 million were outstanding under these agreements.

As of 31 December 2005 and 2004 loans from Sberbank were collateralized by pledges of buildings with a book value of USD 7.8 million and USD 9.9 million, respectively. As of 31 December 2005 and 2004 the loans were also secured by pledges of merchandise with a book value of USD 16.0 million and USD 15.2 million, respectively.

Bonds – On 31 March 2005, the issuance of Ruble-denominated bearer bonds of Pyaterochka Finance LLC, a 99.99 per cent owned subsidiary of Agrotorg LLC, was registered with the Federal Service for Financial Markets of the Russian Federation. The aggregate nominal value of the bonds amounted to RUB 1,500 million (equivalent of USD 52.2 million as of 31 December 2005). The bonds which were placed by open subscription conducted on the Moscow Interbank Currency Exchange (“the MICEX”) on 18 May 2005 have a maturity of five years from

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the date of placement. The rate of a coupon payable on the bonds was determined through an auction conducted on MICEX (11.45%). Interest is payable every six months. The proceeds of the bond issue were used to finance the capital expenditures associated with the opening of new stores by the Group, as well as to refinance the Group's short-term borrowings.

On December 20, 2005, the second bond issue was placed on MICEX. The issuer was the Pyaterochka Finance LLC. The bonds with a total nominal value of 3 billion Rubles (equivalent of USD 104.2 million as at 31 December 2005) are 5-year bonds bearing a semi-annual coupon. The coupon rates are fixed at 9.3% per annum to maturity.

Loan repayments over the five-year period beginning on 1 January 2006 are as follows:

	'mln USD
31 December 2006	6.8
31 December 2007	28.3
31 December 2008	17.4
31 December 2009	12.9
31 December 2010	161.4
Total	226.8

20. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain refrigerating equipment and vehicles under finance lease terms. The agreements expire in 2007-2009 and assume transfer of ownership for the leased assets to the Group at the end of the lease term. The effective borrowing rate on lease agreements as of 31 December 2005, 2004 and 2003 varies from 9.0% to 11.0% per annum on USD agreements and from 24.0% to 31.0% per annum on RUB agreements.

Lease obligations of the Group as of 31 December 2005, 2004 and 2003 consisted of the following:

	Minimum lease payments			Present value of minimum lease payments		
	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Amounts payable under finance leases:						
Within one year	2.9	2.0	0.5	1.7	1.0	0.1
In the second to fifth years inclusive	4.9	4.8	2.1	3.8	3.5	1.4
	7.8	6.8	2.6	5.5	4.5	1.5
Less: future finance charges	(2.2)	(2.2)	(1.0)	N/A	N/A	N/A
Present value of minimum lease payments	5.6	4.6	1.6	5.5	4.5	1.5

21. SHORT-TERM LOANS AND OVERDRAFTS

	Currency	Annual interest rate (Actual at 31 December 2005)	31.12.2005	31.12.2004	31.12.2003
			'mln USD	'mln USD	'mln USD
Sberbank	RUB	11.6%	—	14.0	0.9
Promstroibank	RUB	11.7%	—	1.1	—
LLC Kaiser (Note 27)	RUB	0.1%	—	8.5	—
Sberbank overdraft	RUB	9.0%	—	2.8	5.0
Raiffeisenbank overdraft	USD	5.0%	—	2.7	1.2
			—	29.1	7.1
Current portion of long-term loans (Note 19)			6.8	3.4	2.8
Total short-term loans			6.8	32.5	9.9

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Sberbank – In 2003 and 2004 the Group entered into a number of credit line agreements with Sberbank. These credit lines bore interest of 11.6% per annum and were collateralized by a pledge of merchandise with a book value of USD 23.5 million and property, plant and equipment with a book value of USD 9.0 million as of 31 December 2004. During 2005 the loans were repaid in full.

Promstroibank – In December 2004, the Group entered into a loan agreement with Promstroibank for RUB 30.0 million (equivalent of USD 1.0 million). The loan was unsecured, bearing interest rate of 11.7% per annum and was repaid in January 2005.

LLC Kaiser – In November 2004, the Group entered into a loan agreement with LLC Kaiser, a party under common control, for RUB 236.8 million (equivalent of USD 8.5 million). The loan bore interest of 0.1% per annum and was repaid in full during 2005.

Sberbank overdraft – At 31 December 2004 the Group had an overdraft of USD 2.8 million. The short-term overdraft facility was limited to RUB 250.0 million (equivalent to USD 8.7 million as of 31 December 2005), bore interest of 9.0% per annum and matured in July – September 2005.

Raiffeisenbank overdraft – At 31 December 2004 the Group had an overdraft of USD 2.7 million. The short-term overdraft facility was limited to RUB 100.0 million (equivalent to USD 3.5 million as of 31 December 2005) and bore interest at the internal Raiffeisenbank base rate set for loans denominated in Rubles plus 3.5%.

22. TRADE ACCOUNTS PAYABLE

Trade payables principally comprise amounts outstanding for trade purchases. Management considers that the carrying amount of trade payables approximates their fair value.

23. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of 31 December 2005, 2004 and 2003 consisted of the following:

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Taxes payable	0.1	15.2	14.0
Other payables and accruals	40.3	22.8	15.9
Total	40.4	38.0	29.9

Management considers that the carrying amount of other payables and accruals approximates their fair value.

24. ACQUISITION OF SUBSIDIARIES

In June 2005 the Group acquired 100 per cent of the issued share capital of LLC “Beta Estate” – owner of the Kopeika retail network in St. Petersburg for a cash consideration of USD 60.8 million. All 18 stores operated by LLC “Beta Estate” were or will be rebranded by Pyaterochka subsequent to the acquisition.

In December 2005 the Group acquired 100 per cent ownership of the issued share capital of the Ekaterinburg franchisee comprising the issued share capital of three legal entities, LLC Ural Retail, LLC Legion and LLC Economtorg, for a cash consideration of USD 14.5 million. These transactions have been accounted for by the purchase method of accounting.

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The net assets acquired in these transactions, and the goodwill arising, are as follows:

	Acquiree's carrying amount at acquisition 'mln USD	Fair value adjustments 'mln USD	Fair value 'mln USD
Net assets acquired:			
Property, plant and equipment	4.7	21.2	25.9
Long-term land lease rights	—	1.9	1.9
Inventory	1.6	—	1.6
Other receivables	3.6	—	3.6
Bank and cash balances	0.7	—	0.7
Trade payables	(3.9)	—	(3.9)
Other payables	(0.9)	—	(0.9)
	5.8	23.1	28.9
Goodwill			46.4
Total consideration, satisfied by cash			75.3
Net cash outflow arising on acquisition:			
Cash consideration paid			(75.3)
Cash and cash equivalents acquired			0.7
Net cash outflow			74.6

The value of net assets acquired and the resulting goodwill are determined on a provisional basis only. The Group's management intends to finalize the purchase price allocation in respect of the current year acquisitions during the year ending 31 December 2006.

The goodwill arising on the acquisition of the subsidiaries is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Management of the Group considers it impracticable to disclose the financial impact on the Group as if the acquisitions were made at the beginning of 2005, because the financial statements of the companies before acquisition were prepared on a different basis.

LLC Beta Estate contributed USD 29.3 million of revenue for the period between the date of acquisition and the balance sheet date.

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25. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2005, 2004 and 2003 consisted of the following:

	2005 ‘mln USD	2004 ‘mln USD	2003 ‘mln USD
Payroll and related taxes	88.6	59.0	40.8
Pension costs	6.8	6.5	1.8
Rent	26.1	21.6	14.2
Depreciation and amortization	25.8	14.6	8.4
Advertising and promotional expenses	3.7	9.0	7.0
Repair and maintenance	8.2	6.2	5.3
Security	6.7	4.0	2.3
Package and raw materials	4.6	3.5	3.0
Utilities	5.2	3.3	1.5
Transportation	4.8	2.9	1.5
Insurance	0.6	2.0	4.0
Taxes, other than income tax	1.9	1.3	0.8
Share-based payments expense	5.4	—	—
Loss on disposal of property, plant and equipment	2.3	0.1	0.1
Other expenses	10.5	14.9	12.6
Total	201.2	148.9	103.3

A significant portion of the Group’s operational and accounting personnel is outsourced from two external staff management companies. The related outsourcing fees paid by the Group are shown within the payroll expenses.

The Group enters into various non-cancelable operating lease agreements for the rent of stores, land and premises. The terms of operating leases vary from one to fifty years. Future minimum lease payments under non-cancelable operating lease commitments as of 31 December 2005 become due as follows:

	2005 ‘mln USD
Within 12 months	29.7
In the second to fifth year inclusive	65.6
After five years	23.7
Total	119.0

26. SHARE-BASED PAYMENTS

Share-based payments with cash alternatives

The Group has a share option scheme for certain key employees of the Group. Terms of the arrangement provide an employee with the choice of whether the transaction will be settled in cash or by issuing equity instruments. Options are exercisable at a fixed price equal to EUR 0.25 (approx. USD 0.31). The vesting period varies from 3 to 5 years. The Management Board or the Supervisory Board (as the case may be) may attach the vesting conditions (performance criteria) to an option, such as: (i) the development of the EBITDA of the Group, (ii) the number of new stores opened by the Group, (iii) the development of costs and expenses of the Group, during the vesting period and/or (iv) other parameters as set out by the Management Board or the Supervisory Board (as the case may be). Options lapse if they remain unexercised after a period of one year from the date of vesting. Options are forfeited if the employee leaves the Group before the options vest.

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Details of the share options outstanding during the year are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the year	—	—
Granted during the year	6,129,088	0.31
Outstanding at the end of the year	6,129,088	0.31

The options outstanding at the end of the year have a weighted average remaining contractual life of 4 to 6 years. The options were granted on 16 August, 2005 and 2 December 2005. The estimated fair values of the options granted on these dates are USD 64.8 million (expected life 4 years), USD 8.6 million (expected life 5 years) and USD 12.9 million (expected life 6 years).

These fair values were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2005
Weighted average share price	14.45
Weighted average exercise price	0.30
Expected volatility	67.9%
Expected life	4-6
Risk free rate	3%
Expected dividend	0.13%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the maximum available period – since May 2005. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognized an expense of USD 5.4 million related to share-based payment transactions during the year.

27. TRANSACTIONS WITH RELATED PARTIES

Related party balances as of 31 December 2005, 2004 and 2003 comprised of the following:

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Accounts receivable from LLC Kaiser for construction assets sold	—	55.8	—
Accounts receivable from Hirsova Trading Ltd	—	7.0	—
Accounts receivable from shareholders for withholding taxes	—	3.5	—
Short-term loan receivable from LLC Union-Stroi	—	2.6	—
Advances for construction paid to LLC Macromir	0.2	0.4	0.6
Short-term loan payable to LLC Kaiser	—	(8.5)	—

The transactions with the related parties may not be available on the same terms for third parties.

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Asset transfer and other transactions related to the Carousel group

In 2004, the shareholders of the Group established a separate group of entities to operate the hypermarkets under the brand name “Carousel”. As of 31 December 2005 the Carousel group consists of Formata Holding B.V., Hirsova Trading Limited, LLC Rusel, LLC Rusel M, LLC Kaiser, LLC Union-Stroi, LLC Pyaterochka Plus, LLC Foodsale, LLC Pyaterochka Shop 502, LLC Matrix, LLC Krasnoborskoye, LLC Emitel, LLC Ukatan, LLC Stalebeton, LLC Carousel, LLC Bashkirsky retail, LLC Avtoport, LLC Dalnevostochny, LLC Kollontay, LLC Land invest, LLC Sportivny, LLC Inzhstroy NN, LLC Region proekt, LLC Oblast Fill 5, LLC Fili oblast 2. All these entities are considered related by means of common control.

During 2004, the Pyaterochka Group transferred to the Carousel group all of its interests and investments in the partially constructed hypermarkets in St. Petersburg area (comprising land, buildings and construction in progress) with a book value equivalent to USD 23.4 million and provided the Carousel group with an amount of approximately USD 32 million as loans with interest accruing at the annual rate of 0.1 per cent. No cash consideration was received from the Carousel group in connection with the transfer and the loans were not repaid. As a consequence of this transfer and loan, a receivable of USD 55.8 million was recorded in the Group’s financial statements as at and for the year ended 31 December 2004, legally apportioned between Agrotorg’s wholly owned subsidiaries LLC Foodsale, LLC Shop Pyaterochka Plus and LLC Pyaterochka 502.

During the year ended 31 December 2004 in connection with the spin-off of hyper-markets project the Group released its shareholders from the obligations under the loan receivable for USD 17.9 million. The effect of this transaction was charged to equity as a distribution to shareholders.

In March 2005 the Group sold all of the shares held by Agrotorg’s subsidiaries in LLC Foodsale, LLC Shop Pyaterochka Plus and LLC Pyaterochka 502 to the Carousel group for nominal consideration. The economic effect of this sale was to transfer the receivable arising out of the hypermarkets asset transfer and loan referred to above to the Carousel group, thereby releasing the Carousel group from its obligations under the receivable as well as to impose on the Pyaterochka Group a debt of US 3.9 million in favor of the Carousel group (resulting from the intragroup indebtedness which was owed by the Pyaterochka Group to LLC Foodsale, LLC Shop Pyaterochka Plus and LLC Pyaterochka 502 prior to the sale). The transaction was treated in the consolidated financial statements of the Group as a dividend in kind and decreased shareholders’ equity by the equivalent of USD 59.6 million. The controlling shareholders in the Group have agreed to indemnify the Group against any tax liabilities arising in connection with the sale (including any interest and penalties incurred thereon).

During 2005 the Group shared certain back-office functions with the Carousel group companies, including a joint-purchasing arrangement, and received a total of USD 0.1 million from the Carousel group for these services.

In 2004, Speak Global Ltd. provided loans to Hirsova Trading Ltd. to finance Carousel group’s capital expenditure and working capital. Such loans gave rise to a short-term receivable of USD 7 million recorded in the Group’s balance sheet as at 31 December 2004. These loans were fully repaid in August 2005.

During 2004 the Group provided financing to Carousel group by issuing loans to LLC Union-Stroi. As of 31 December 2004 the outstanding receivable balance from LLC Union-Stroi for the amount of USD 2.6 million is recorded within receivables and prepayments.

In November 2004 the Group received a loan from LLC Kaiser for USD 8.5 million. The loan bears 0.1% per annum. The outstanding balance of this loan as at 31 December 2004 is USD 8.5 million. The loan has been fully repaid during 2005.

In April 2005 the Group provided loans to the Carousel group for USD 30.0 million to finance working capital. The loans bear interest of 13% per annum. They were fully repaid in August 2005.

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Transactions with shareholders

The Group entered into two loan agreements with its shareholder Marie-Carla Corporation N.V. for a total of USD 60.1 million to finance the purchase of LLC Beta Estate retail network in St. Petersburg. In June 2005, the Group received USD 59.2 million under such agreements. During 2005 the Group has fully repaid the loan resulting in USD nil outstanding balance as of 31 December 2005.

As of 31 December 2004 the Company accrued a liability for a dividend withholding tax in amount of USD 3.5 million under the Dutch legislation. The controlling shareholders of the Company had agreed to reimburse the Group with the amount of taxes payable, the related receivable from the shareholders is recorded within receivables from related parties as of 31 December 2004. During 2005 the Company's controlling shareholders reimbursed to the Company a total of approximately USD 4.9 million in relation to the Dutch withholding taxes due arising on a distribution in kind in connection to the Carousel transaction. As of 31 December 2005, no further liability is recorded in respect of the Dutch dividend withholding tax.

Other related party transactions

In 2004–2005 the Group also entered into a number of transactions for construction of estate properties, for lease of advertising space and extending loans with companies in which Directors of the Group hold equity interests and have the ability to exercise significant influence over their operations. These transactions are summarized below.

LLC Media 5 – In 2005 and 2004, the Group leased advertising space in its St. Petersburg stores to LLC Media 5, a company related by means of common control, for RUB 13.4 million and RUB 3.1 million (equivalent to USD 0.5 million and USD 0.1 million), respectively.

LLC Media 5M – In 2005 and 2004, the Group leased advertising space in its Moscow stores to LLC Media 5M, a company related by means of common control, for RUB 22.3 million and RUB 4.5 million (equivalent to USD 0.8 million and USD 0.2 million), respectively.

LLC Macromir – In 2004, LLC Macromir performed capital construction for the Group. The amount of capital construction services purchased by the Group from Macromir was RUB 21.2 million (equivalent to USD 0.7 million). As of 31 December 2005 the balance of advances paid by the Group to LLC Macromir included in construction in progress amounted to RUB 5.2 million (equivalent to USD 0.2 million).

LLC LEK Estate Concern, LLC LEK Estate Firm – In 2003, the Group purchased a newly completed building from LEK Estate for a total consideration of USD 0.5 million.

Compensation of key management personnel

The remuneration of the Management Board and Supervisory Board directors of the Group for the years ended 31 December 2005, 2004 and 2003 was as follows:

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Short-term benefits	1.7	1.2	9.6
Expenses recognized in respect of share-based payments	5.4	—	—

28. RISK MANAGEMENT POLICIES

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. A description of the Group's risk management policies in relation to those risks follows.

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Credit risk – The Group’s credit risk is primarily attributed to its receivables and prepayments. The credit risk attributable to receivables and prepayments is limited due to a diversified base of counterparties. The Group does not have specific policies in place to mitigate these risks.

Interest rate risk – The Group is exposed to interest rate risk as a certain portion of its borrowings is at variable interest rate or short-term in nature, and the Group’s refinancing activities are subject to risks associated with changes in the applicable interest rate. The Pyaterochka Group does not hedge against these risks.

Foreign currency risk – The Group incurs foreign currency risk on borrowings that are denominated in currencies other than rubles. The Group does not hedge against its foreign currency risk exposure.

Fair values – The fair value of assets and liabilities are not materially different from the financial statement carrying values, unless specifically indicated elsewhere in these financial statements.

29. CAPITAL COMMITMENTS

Capital commitments represented by investment agreements for the construction of stores in St. Petersburg and Moscow as of 31 December 2005, 2004 and 2003 were as follows:

	31.12.2005 ‘mln USD	31.12.2004 ‘mln USD	31.12.2003 ‘mln USD
Commitments for the acquisition of property, plant and equipment	25.9	10.9	22.2

Purchase of LLC «Set Roznichnoi Torgovli» (SRT) – In December 2005 the Group reached an agreement in principle to acquire the largest franchisee of the Kopeika retail chain in Moscow and the Moscow region which operates 25 stores under “Kopeika” brand. The Group expects that the SRT stores will be rebranded as part of the Pyaterochka.

Following the acquisition, Pyaterochka increased the number of its stores in Moscow by 14, the Moscow region by 9, and 2 in the city of Vladimir. Of the 25 stores, 12 are owned and 13 are on long-term leases. The consideration paid is approximately USD 90.0 million including USD 7 million of assuming debt. In March 2005 the Group gained 100% control over SRT. Prepayment of USD 9.0 million was recorded as other long-term assets in these financial statements as at 31 December 2005 (Note 10).

30. OPERATING ENVIRONMENT AND CONTINGENCIES

Operating and regulatory environment – Although in recent years there has been a general improvement in economic conditions in Russia, the Russian Federation continues to display certain characteristics of a transitional economy. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms. As a result laws and regulations affecting businesses continue to change rapidly.

Taxation – Tax laws in Russia are subject to frequent changes and varying interpretations. Management’s interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged in the future. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years proceeding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

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

31. POST BALANCE SHEET EVENTS

Loans from related parties – In January 2006, the Group company Speak Global Ltd received loans from Technibel Worldwide Ltd for USD 8 million and Desside Holding Ltd for USD 12 million. The loans bore interest of 8.5%. They matured and were fully repaid in February 2006. The directors of the Group hold interests in these companies and have the ability to exercise significant influence over their operations.

Loan from Raiffeisenbank – In February 2006, the Group entered into a credit line agreement with Raiffeisenbank for RUB 1,000 million to finance its working capital needs. The loan is unsecured, matures in February 2007 and bears interest of 1 month Mosprime plus 1.5% (approximately 5%).

Credit line from Promstroibank – In April 2006, the Group entered into a universal credit line agreement with Promstroibank for RUB 1,000 million to finance its working capital needs. The loan is unsecured, matures in 1.5 years and bears interest between 1.5% and 10.5%.

Sale of Economtorg – On 20 March 2006, LLC Economtorg, the legal entity acquired in Ekaterinburg, was sold to third parties for a nominal value. As a result of this transaction three stores being rented by Economtorg were closed.

Purchase of franchise operator in Chelyabinsk – In January 2006 it was announced that the Group signed an agreement to acquire a 26% equity stake in its franchise operator in the Chelyabinsk region of Russia, LLC Ural-Agro-Torg and LLC Leto for a cash consideration of 43.5 million Russian rubles (approximately USD 1.5 million). LLC Ural-Agro-Torg currently operates 29 stores in the Chelyabinsk region. This transaction is the first step towards the creation of a "cluster" of operations in the Ural region.

The Group also signed agreements outlining steps for further consolidation of its operations in the Chelyabinsk and Ekaterinburg regions. According to these agreements, by 1 June 2006, Pyaterochka and the majority owner of LLC Ural-Agro-Torg will combine the operations of the Chelyabinsk and Ekaterinburg regions to form a new entity, Pyaterochka Ural.

Pyaterochka Ural will be owned 51% by Pyaterochka Holding N.V. and 49% by the majority shareholder in LLC Ural-Agro-Torg, the Chelyabinsk franchisee. The majority shareholder of LLC Ural-Agro-Torg will contribute his 74% stake in Ural-Agro-Torg in exchange for a 49% stake in Pyaterochka Ural. CJSC Agrostar, the Group's subsidiary, will contribute its 26% stake in LLC Ural-Agro-Torg, as well as 100% of the equity in the company's Ekaterinburg operations, in exchange for a 51% stake in Pyaterochka Ural.

Pyaterochka Ural expects to obtain control over the operations in the Chelyabinsk and Ekaterinburg regions in June 2006. Under the terms of the agreement, the existing management team of Ural-Agro-Torg is to continue managing the day-to-day operations and the expansion plans of Pyaterochka Ural in the Chelyabinsk and Ekaterinburg regions.

Perekrestok transaction – In April 2006 the Group announced the merger of Pyaterochka and Perekrestok, a majority-owned subsidiary of Alfa Group. Pyaterochka will acquire 100% of the equity in Perekrestok for USD

300 million to be paid in cash and USD 15.8 million of new shares of Pyaterochka. Simultaneously, Alfa Group together with certain members of Perekryostok management will acquire a controlling stake in Pyaterochka from the Company's current controlling shareholders. The Group has also obtained a committed syndicated credit facility of up to USD 800 million to finance the acquisition and post acquisition capital requirements. As of the date of approval of these financial statements no amount has been drawn down under this facility.

As part of the Perekrestok transaction, the controlling shareholders of the Group, who are also the beneficial owners of the Carousel group, have granted Pyaterochka a call option to acquire the entire share capital of Formata Holding B.V., the parent company of the Carousel group. The consideration for the exercise of the call option will be calculated by reference to the future financial performance of the Carousel group to be satisfied by a cash payment equal to 75 per cent of the total consideration and by issuing shares in Pyaterochka for the remaining part. The option is exercisable during the period beginning on 1 January 2008 and ending on 1 July 2008. The option agreement is conditional on completion of the Perekrestok transaction.

(e) Capital Resources and Commitments

In addition to financing its existing operations, the Pyaterochka Group's liquidity needs arise principally from the need to finance the acquisition and construction of stores, as well as costs associated with their opening. In the periods under review, the Pyaterochka Group has been able to meet most of its working capital needs out of net cash provided by operating activities and, to a lesser extent, out of bank borrowings.

(i) Net cash provided by operating activities

The Pyaterochka Group's primary source of working capital is net cash provided by operating activities. The Pyaterochka Group's net cash provided by operating activities increased by 59.0 per cent., to US\$171.4 million, for the year ended 31 December 2005 from US\$107.8 million for the year ended 31 December 2004 and by 51.0 per cent. for the year ended 31 December 2005 from US\$71.4 million for the year ended 2003. The increase was due to the combined effect of the increase in the Pyaterochka Group's profit before income tax (as discussed above) and the effect of certain non-cash items (such as depreciation of property, plant and equipment), as well as a significant increase in trade accounts payable and decrease in receivables and prepayments. The Company expects increases in its payables to continue in the future as the Pyaterochka Group's business continues to grow. The increase in trade accounts payable during the periods under review was due primarily to an increase in sales volumes (driven by new store openings and increased like-for-like sales) as well as an improvement in payment deferral terms agreed with the Pyaterochka Group's suppliers. These positive effects were offset in part by increases in inventories and other payables and accrued expenses over the period, as well as increases in income tax and interest paid. During the year 2005, Pyaterochka maintained a robust cash flow profile, generating US\$171.4 million of operating cash flow, largely covering US\$201.7 million of organic capex.

(ii) Net cash used in investing activities

The principal use of net cash used in investing activities over the periods under review was for the purchase of property, plant and equipment, and construction in progress, as well as acquisition of subsidiaries. Investing in organic capital expenditure was mainly related to the acquisition and construction of stores, acquisition of land rights and of in-store equipment, and the construction of modern distribution centres in St. Petersburg and in the Moscow area.

Cash out-flow due to purchase of property, plant and equipment increased by 109.9 per cent. to US\$165.2 million, for the year ended 31 December 2005 from US\$78.7 million for the year ended 31 December 2004 and by 24.3 per cent. for the year ended 31 December 2004 from US\$ 63.3 million for the year ended 31 December 2003. These year-on-year increases were driven mainly by the Pyaterochka Group's ongoing store expansion programme necessitating the purchase of store properties, as well as by purchases of new in-store and warehouse equipment and vehicles.

Cash out-flow due to construction in progress increased by 47.8 per cent. to US\$33.1 million, in 2005 from US\$22.4 million in 2004 and by 286.2 per cent. in 2004 from US\$5.8 million in 2003. The increase in 2005 was mainly due to the ongoing construction of new stores in 2005, construction of the planned extension to the Pyaterochka Group's distribution centre and the Moscow area (in 2005). The increase in net cash used in investing activities in 2004 was due to the US\$31.6 million financing provided by the Pyaterochka Group to the Carousel Group for construction of hypermarkets, the ongoing construction of new stores and construction of the extension to the distribution centre in the St. Petersburg area.

Cash out-flow due to acquisition of subsidiaries by the Pyaterochka Group amounted to US\$74.6 million in 2005 as compared to US\$nil in 2004 and 2003 which contributed 56.7 per cent to the overall percentage increase in cash out-flow in investing activities in the year 2005.

(iii) Net cash from financing activities

Net cash from financing activities increased by 580.4 per cent. to US\$159.9 million, generated in 2005 and by 197.5 per cent. in 2004 to US\$23.5 million from US\$7.9 million generated in 2003. The increase in net cash flow from financing activities from 2004 to 2005 was due to issue of bonds in May and December 2005 supplemented by a significant increase in net proceeds from bank loans offset by a decrease in bank overdrafts. The increase in net cash flow from financing activities from 2003 to 2004 was due principally to a significant increase in net proceeds from bank loans, reduced by a US\$17.9 million distribution made to shareholders in 2004 and a US\$3.4 million dividend paid to shareholders in 2004.

(iv) Borrowings

The following table sets forth the Pyaterochka Group's borrowings as at the dates indicated:

	As at 31 December		
	2005	2004	2003
	US\$ million		
Short-term loans ¹	6.8	32.5	9.9
Long-term loans	220.0	38.5	11.7
Total borrowings	226.8	71.0	21.6

¹ Short-term loans includes the current portion of long-term loans which amounted to US\$6.8 million, US\$3.4 million and US\$2.8 million as at 31 December 2005, 2004 and 2003, respectively.

(1) Short-term borrowings

Over the periods under review, the Pyaterochka Group has entered into a number of Rouble-denominated loan agreements with Sberbank, Promstroibank, Raiffeisenbank and LLC Kaiser (a party under common control, see "Major Shareholders and Related Party Transactions – Related Party Transactions"). The total amount outstanding under such loans as at 31 December 2004 was US\$29.1 million. The loans outstanding as at 31 December 2004 bear interest at rates varying from 0.1 per cent. (for LLC Kaiser) to 11.7 per cent. per annum. As at 31 December 2004, merchandise with a book value of US\$23.5 million and property, plant and equipment with a book value of US\$9.0 million were pledged to secure these loans. These loans were repaid in full during 2005.

As of 31 December 2005 short-term loans are represented only by the current portion of long-term loans that equals US\$6.8 million. All the stated above short-term loans were repaid in full in 2006.

In January 2006, the Pyaterochka Group entered into loan agreements with related parties in the total amount of US\$20 million. The loans matured and were fully repaid in February 2006.

(2) Long-term borrowings

In September 2003, the Pyaterochka Group entered into two credit agreements with Raiffeisenbank for an aggregate amount of US\$10.0 million. In September and January 2005 and January 2004, the Pyaterochka Group entered into five additional credit agreements with Raiffeisenbank for an aggregate amount of US\$7.5 million, US\$12.5 million and US\$9.9 million, respectively. Loans received in 2004 and 2003 bear interest of LIBOR+5.25 per cent and are being repaid in quarterly instalments with maturity in August 2008. For these loans the Pyaterochka Group has already started to make quarterly repayments. Loans received in 2005 bear interest of LIBOR+4.85 per cent and are repayable in quarterly instalments starting in April 2006 and will be fully repaid by January 2010. As of 31 December 2005, US\$36.7 million were outstanding under these agreements. Property, plant and equipment with a book value of US\$35.3 million and US\$19.4 million were pledged to collateralize the outstanding balances as of 31 December 2005 and 2004, respectively.

Over the periods under review, the Pyaterochka Group entered into several Rouble-denominated credit facilities with Sberbank to finance capital expenditure. In September 2002, the Pyaterochka Group entered into a credit facility with Sberbank for a RUR amount equivalent to US\$2.4 million (as of 31 December 2005) maturing in September 2007. The credit facility bore interest of 16 per cent per annum. During 2005 the loan was repaid in full.

In November 2003, the Pyaterochka Group entered into a credit facility with Sberbank in a RUR amount equivalent to US\$4.5 million (as of 31 December 2005), redeemable in quarterly instalments starting in March 2008 and maturing in November 2008. In July 2004, the Pyaterochka Group entered into a credit facility with Sberbank in a RUR amount equivalent to US\$4.3 million (as of 31 December 2005), redeemable in a quarterly instalments starting in December 2008 and maturing in July 2009. In 2005, the Pyaterochka Group entered into additional agreement with Sberbank in a RUR amount equivalent to US\$6.9 million (as of 31 December 2005), redeemable in quarterly instalments starting in September 2009 and maturing in September 2010. The credit

facilities bear interest from 14.0 per cent to 15.0 per cent per annum. As of 31 December 2005, 2004 and 2003, US\$15.8 million, US\$8.6 million and US\$1.6 million, respectively, were outstanding under these agreements.

In July 2004, the Pyaterochka Group entered into a revolving credit facility with Sberbank for a RUR amount equivalent to US\$8.0 million (as of 31 December 2005) to finance its working capital. The loan bore interest of 11.6 per cent. per annum and was fully repaid in 2005.

In July 2004, the Pyaterochka Group entered into a credit facility with Sberbank of up to RUR equivalent to US\$5.9 million (as of 31 December 2005), to finance its working capital. Interest rate on this credit facility varies between 11.5 per cent. to 12.5 per cent. The loan was to mature in January 2006, but was repaid in full during 2005.

As of 31 December 2005 and 2004, the Sberbank credit facilities were secured by pledges of buildings with a book value of US\$7.8 million and US\$9.9 million, respectively, and merchandise with a book value of US\$16.0 million and US\$15.2 million, respectively.

In May 2005, Pyaterochka issued five-year 11.45 per cent. semi-annual coupon bonds in the amount of RUR 1.5 billion equivalent to US\$52.2 million (as of 31 December 2005). The proceeds of the bond issue were used to finance the capital expenditures associated with the opening of new stores by the Pyaterochka Group, as well as to refinance the Pyaterochka Group's short-term borrowings.

The US\$60.8 million acquisition of Kopeika stores announced in June 2005 was largely financed by a US\$59.2 million loan to Pyaterochka from the Marie-Carla Corporation N.V., which is a shareholder of the Pyaterochka Group.

In December 2005, Pyaterochka issued a five-year, 9.3 per cent. semi-annual coupon bonds in the amount of RUR 3 billion equivalent to US\$104.2 million (as of 31 December 2005).

In February 2006, the Pyaterochka Group entered into a credit line agreement with Raiffeisenbank for the total amount of RUR 1,000 million (US\$36.4 million as of 20 April 2006) to finance its working capital needs. The loan is unsecured, matures in February 2007 and bears interest of 1 month Mosprime plus 1.5 per cent (approximately 5 per cent).

In April 2006, the Pyaterochka Group entered into a universal credit line agreement with Promstroibank for the total amount of RUR 1,000 million (US\$36.4 million as of 20 April 2006) to finance its working capital needs. The loan is unsecured, matures in 1.5 years and bears interest between 1.5 percent and 10.5 per cent.

(3) Capital expenditure

The Pyaterochka Group's total capital expenditure amounted to approximately US\$201.7 million, US\$133.0 million and US\$72.2 million in 2005, 2004 and 2003, respectively. The Pyaterochka Group's capital expenditure during these periods has been largely driven by its proactive store roll-out strategy, and the expansion of the Pyaterochka Group's distribution centre capacity. In 2005 and 2004, the Pyaterochka Group's capital expenditure was spent mainly on purchase of property, plant and equipment, construction of new stores and store launch costs. Approximately US\$31.6 million in 2004 was attributed to the purchase of property, plant and equipment and construction for the Carousel Project. See "Major Shareholders and Related Party Transactions – Hypermarket Project".

The Pyaterochka Group's programme to roll out new stores and to expand its distribution capacity is likely to lead to significant capital expenditure in the future. The Company expects to spend US\$353 million in 2006. The transfer of the Carousel hypermarket assets in 2005 (see "Major Shareholders and Related Party Transactions – Related Party Transactions – Related party transactions relating to the Carousel Project – Asset transfers and loans between the Pyaterochka Group and the Carousel Group") has offset the Pyaterochka Group's increasing capital expenditure in the short term. The Company does not anticipate any further capital expenditure with respect to the Carousel Group.

In August 2005, Pyaterochka Group had completed acquisition of 18 Kopeika stores in St. Petersburg. The purchase price was agreed at US\$60.8 million. The Kopeika Stores had been rebranded as part of the Pyaterochka network during a 30 day conversion period and had changed the stock to Pyaterochka's range of

products. The Pyaterochka Group entered in two loan agreements with its shareholder Marie-Carla Corporation N.V. for a total amount of US\$60.1 million for this purchase and in June 2005 received US\$59.2 million under these agreements. During 2005 the Pyaterochka Group has fully repaid the loan.

In December 2005, the Pyaterochka Group acquired 100 per cent ownership in the issued share capital of a franchisee in Yekaterinburg (the Southern Urals region of Russia) comprising the issued share capital of three legal entities, LLC Ural Retail, LLC Legion and LLC Economtorg. This acquisition was a first step in the Pyaterochka group strategy of consolidation of its franchise operations. The value of the transaction was approximately US\$14.5 million, comprising a cash consideration and the value of the assumed debt.

(4) Capital Commitments

In 2003 and 2004 the Pyaterochka Group entered into investment agreements for the construction of stores in St. Petersburg and Moscow. Capital commitments as at 31 December 2005, 2004 and 2003 were as follows:

	<u>As at 31 December</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	US\$ million		
<u>Commitments for the acquisition of property, plant and equipment</u>	<u>25.9</u>	<u>10.9</u>	<u>22.2</u>

On 15 December 2005, Pyaterochka signed an agreement to acquire SRT – the largest franchisee of the Kopeika retail chain in Moscow and the greater Moscow area with a total of 25 stores – for a consideration of US\$90 million including US\$7 million of assumed debt. The acquisition will be part financed from the proceeds of the RUR 3 billion bond issue and part financed by bank financing.

On 18 January 2006, Pyaterochka announced that it had signed an agreement on 17 January 2006 to acquire a 26 per cent. equity stake in its franchise operator in the Chelyabinsk region of Russia, UAT. Pyaterochka's operating subsidiary, Agro-Star, has agreed to purchase the 26 per cent. stake, for a cash payment of RUR 43.5 million (approximately US\$1.5 million). Pyaterochka has also signed agreements outlining steps for further consolidation of its operations in the Chelyabinsk region. According to these agreements, by 1 June 2006, Pyaterochka and the majority owner of UAT will combine the operations of the Chelyabinsk and Yekaterinburg regions, to form a new entity, Pyaterochka Ural.

1.2 Perekrestok

(a) Selected Financial Information

The following selected financial information sets out selected combined and consolidated financial data for the Perekrestok Group as at and for the years ended 31 December 2005, 2004 and 2003 which are extracted without material adjustment from the Perekrestok Financial Statements. The Perekrestok Financial Statements appear in paragraph 1.2(c)(iii) of this Part. The selected financial information should be read in conjunction with the Perekrestok Financial Statements (including the Notes thereto) as well as with Perekrestok's Operating and Financial Review.

The Perekrestok Financial Statements have been prepared on the basis of IFRS.

	For the year ended 31 December		
	2005	2004	2003
	(US\$ thousands, except per share amounts)		
Consolidated income statement data			
Net Sales	1,014,785	660,047	373,402
Cost of goods sold	(737,721)	(481,284)	(270,524)
Gross profit	277,064	178,763	102,878
Operating expenses	(253,877)	(158,227)	(93,615)
Gain/(loss) from disposal of property, plant and equipment	18,139	(17)	(144)
Lease/sublease income	15,582	9,727	4,081
Operating profit	56,908	30,246	13,344
Finance costs, net	(14,395)	(7,696)	(2,951)
Net foreign currency exchange (loss)/gain	(4,420)	6,108	1,899
Profit before income tax	38,093	28,658	12,292
Income tax expense	(9,074)	(11,672)	(3,816)
Profit for year	29,019	16,986	8,476
Earnings per share, basic and diluted, US dollar per share	18.71	11.62	5.99
Consolidated cash flow data			
Net cash provided by operating activities	40,188	36,621	29,147
Net cash used in investing activities	(167,477)	(86,120)	(54,195)
Net cash from financing activities	104,991	85,262	33,939
	As at 31 December		
	2005	2004	2003
	(US\$ thousands)		
Consolidated balance sheet data (end of period)			
Cash and cash equivalents	30,067	52,618	16,990
Total assets	559,526	370,577	219,199
Total debt (long-term and short-term)	196,691	90,247	56,653
of which long-term obligations under finance leases	—	—	—
Total liabilities	377,540	208,967	130,733
Total shareholders' equity	181,986	159,278	85,978

Note:

Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of Perekrestok by the weighted average number of ordinary shares in issue during the year.

Perekrestok has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share and are calculated as follows:

In thousands of US Dollars	Note	2005	2004	2003
Profit from operations attributable to equity holders of the Company		29,132	16,847	8,419
Weighted average number of ordinary shares in issue (thousands)		1,557	1,449	1,405
Basic and diluted earnings per share for profit from continuing operations (expressed in USD per share)		18.71	11.62	5.99

(b) Operating and financial review

Investors should read the following operating and financial review relating to the years ended 31 December 2005, 2004 and 2003 together with Perekrestok's Financial Statements and the notes thereto included in this document. Perekrestok's Financial Statements have been prepared in accordance with IFRS.

The following operating and financial review includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this document.

(i) Overview

Perekrestok is one of the largest and fastest-growing supermarket chains in Russia in terms of sales. As at 31 December 2005, Perekrestok operated a chain of 120 own stores (90 in 2004) located primarily in the European part of Russia and in the Ukraine with a total net selling area of 141 thousand square metres (102 thousand square metres in 2004) and had nine stores under franchise agreements (four stores in 2004). For the year ended 31 December 2005 the Perekrestok Group had sales revenue of US\$1,014.8 million (US\$660.0 million in 2004, representing an increase of 54%) and gross profit of US\$277.1 million (US\$178.8 million in 2004, representing an increase of 55%).

Perekrestok operates three different types of store format: convenience stores, supermarkets and city hypermarkets, which provides the company with the flexibility to reach the majority of target audience at the market.

Perekrestok's success is defined by a strong management team, access to quality real estate, modern infrastructure in logistics and IT, and strong support from its principal shareholder, Alfa Group.

Perekrestok has successfully expanded its operations, from one supermarket in Moscow in 1995, to 120 stores as by the end of 2005 year in eight regions of Russia and in the Ukraine. While the Perekrestok Group continues to grow aggressively in its core Moscow market, regional expansion is considered a key strategic priority, with St Petersburg and the Central and Volga regions being primary targets.

Perekrestok Group's retail expertise and investment in its logistics and distribution network are key to its strategy and market position.

Modern warehousing and logistics capability is an important part of Perekrestok Group's strategy. The Group is currently operating a multi-temperature distribution centre in Moscow with a total area of 17 thousand square meters and with a fleet of 60 vehicles delivering approximately 25 per cent. of volumes sold by Perekrestok stores. Perekrestok plans to continue to develop its distribution capability in Moscow and the Russian regions to have better control of its margins and to maintain a higher level of customer service.

(ii) Significant factors affecting results of operations:

(1) New store openings

During the periods under review, Perekrestok Group has pursued an aggressive store expansion strategy, with the number of stores growing from 44 stores as of 31 December 2002 to 120 stores as of 31 December 2005. The following table presents the number of stores operated by the Perekrestok Group as at 31 December 2005, 2004 and 2003, presented by area:

<u>Area</u>	<u>As at 31 December</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Moscow area	73	62	52
Nizhny Novgorod area	14	10	7
St Petersburg area	9	4	2
Ukraine	4	—	—
Other regions of Russia	20	14	3
Total	120	90	64

Historically, the Perekrestok Group has expanded its store chain by leasing stores from third parties, as well as by purchasing existing stores from third parties or building new stores. The following table presents the number of stores operated by the Perekrestok Group as at 31 December 2005, 2004 and 2003, presented by type (owned or leased from a third party):

<u>Type of store</u>	<u>As at 31 December</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Owned	47	36	24
Leased	73	54	40
Total	120	90	64

The store expansion strategy has affected the Perekrestok Group's results of operations in each period under review by increasing revenue, cost goods sold and operating expenses, thus making period to period comparison difficult. In 2005, the average annual rent payment made by the Perekrestok Group in respect of leased stores was approximately US\$251 per square metre of total store space in Moscow area, US\$115 per square metre in Nizhny Novgorod and US\$225 per square metre in the St. Petersburg area.

(2) Expansion through acquisitions

The Perekrestok Group uses acquisitions primarily as part of its regional expansion strategy.

During 2003 Perekrestok Group acquired 68.4% interest in Rathmine Holdings Limited, a holding company operating a chain of seven supermarkets in the city of Nizhny Novgorod, for US\$11.7 million. In 2004 the Perekrestok Group acquired an additional 17.1% interest in Rathmine Holdings Limited for a total of US\$4.2 million. During 2005 the Perekrestok Group acquired an additional 14.5% of the voting shares of Rathmine Holdings Limited for US\$6.7 and became 100% owner of Rathmine Holdings Ltd. The Perekrestok Group acquired US\$1.7 million of net assets of Rathmine Holdings Limited and recognised goodwill in the amount of US\$4.9 million.

In December 2004 Perekrestok Group acquired 100% of ZAO Loximer, which operates four retail grocery stores (two owned and two leased) in the city of Yaroslavl, for US\$6.9 million.

In June 2004 Perekrestok Group acquired 100% of OOO MSKB, which owns and operates one retail grocery store in Moscow, for US\$4.2 million.

In March 2005 Perekrestok Group acquired 100% of the voting shares of ZAT Centre SPAR Ukraine for a total consideration of US\$6.8 million. ZAT Centre SPAR Ukraine operates four retail grocery stores in Kiev, Ukraine, recognizing a goodwill of US\$4.2 million, attributable to the location of the property acquired and synergies expected to arise after the acquisition.

(3) Macroeconomic trends

Please refer to paragraph 1.1(b)(ii)(2) in Part VI (Pyaterochka Operating and Financial Review - Macroeconomic trends) for details of macroeconomic trends which influence the Perekrestok Group's results of operations.

(4) Selling prices and purchasing policies

The Perekrestok Group establishes prices based primarily on store format and product type and has a standard average mark up for each category of products and store format. Product prices are reviewed periodically because the ability of the Perekrestok Group to compete depends in part on its ability to offer competitive prices and services. The Perekrestok Group's operating results will be significantly impacted if it is required to engage in aggressive price competition with its principal competitors.

Volume of purchases, geographic concentration of the Perekrestok Group's stores in Moscow and other regions of Russia and its perceived growth prospects enables the Perekrestok Group to negotiate benefits and discounts with many key suppliers. The Perekrestok Group has specific arrangements with major suppliers whereby they are obligated to deliver products at the lowest prices available in the market. The Perekrestok Group's ability to negotiate favourable agreements with the Perekrestok Group's suppliers will continue to have a significant impact on the Perekrestok Group's gross margin and operating income.

(5) Seasonality

The Perekrestok Group's business is affected by seasonality. The Perekrestok Group experiences increased sales, especially of high priced foods and alcohol products in December, prior to the New Year holiday season. The Perekrestok Group's sales reach lowest levels in July through August, when a significant portion of its customer base leaves the urban areas of Moscow and St. Petersburg for summer vacations and/or temporarily relocates to suburban and countryside areas located in relative proximity to Moscow and St. Petersburg. The management of the Perekrestok Group believes that the Perekrestok Group has been able to partially offset the seasonal declines in the sales of stores located in urban areas through increased sales at the stores located in city areas adjacent to such suburban and countryside areas.

(6) Tax legislation

Please refer to Part II, Risk Factors, "*Characteristics of and changes in the Russian tax system could materially adversely affect the Enlarged Group's business and financial condition*", for details of tax issues which create a particularly difficult operating environment for the Perekrestok Group.

(7) Effects of hyper inflationary accounting

Prior to 2003, Russia was deemed a highly inflationary economy based on the criteria set out in IAS 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires the restatement of financial statements in terms of current monetary units if highly inflationary conditions exist in an economy. As of 1 January 2003, Russia's economy ceased to be regarded as a hyperinflationary economy under IAS 29. Therefore, since such date, the Perekrestok Group has ceased making the restatements set out in IAS 29 with respect to its operating companies. As a result, there is no monetary gain or loss for the years ended 31 December 2003 and 2004 in the Financial Statements.

(iii) Results of operations

Year Ended 31 December 2005 Compared to the Year Ended 31 December 2004, Compared to the Year Ended 31 December 2003

(1) Revenues

The following table sets forth the Perekrestok Group's revenues by category and certain key revenue performance indicators for the years ended 31 December 2005, 2004 and 2003.

	Year ended 31 December					
	2005		2004		2003	
	US\$	% of total	US\$	% of total	US\$	% of total
	<i>(in millions, except as otherwise indicated)</i>					
Sales						
Retail	987.4	97.3%	638.4	96.7%	360.2	96.5%
Wholesale	10.7	1.1%	10.2	1.6%	7.8	2.1%
Marketing and other services	16.7	1.6%	11.4	1.7%	5.4	1.4%
Total	1,014.8	100%	660.0	100%	373.4	100%
Revenue per square metre of trading space ¹ (US\$ thousands)	8.6		8.1		6.7	

¹ Trading space represents area of Perekrestok Group stores that operated during the year, adjusted for stores opened or closed during each year. Trading space excludes storage and administrative facilities and subleased space.

The Perekrestok Group's total revenue increased by US\$354.8 million or by 54%, to US\$1,014.8 million for the year ended 31 December 2005 from US\$660.0 for the year ended 31 December 2004, and by US\$286.6 million or by 77% for the year ended 31 December 2004 from US\$373.4 million for the year ended 31 December 2003. The increase in revenue was principally the result of opening new stores. The number of Perekrestok Group stores increased to 120 as at 31 December 2005 from 90 as at 31 December 2004 and from 64 as at 31 December 2003, resulting in an increase in average trading space for the year, adjusted for stores opened and closed during the year, to 118 thousand square metres in 2005 from 81 thousand square metres in 2004 and from 55 thousand square metres in 2003. Total store space, including storage and administrative facilities and subleased area, adjusted for stores opened and closed during the year was 294 thousand square metres in 2005, 210 thousand square metres in 2004 and 147 thousand square metres in 2003.

Revenue per square metre of trading space in 2005 increased by 6.2% to US\$8.6 thousand per square metre from US\$8.1 thousand per square metre in 2004 and by 20.9% from US\$6.7 thousand per square metre in 2003. The continuous increase in revenue per square metre was a result of a gradual sales growth of newly opened stores during the years under review. Historically, new stores show an increase in sales in 6 months after opening.

Retail sales, representing 97% of Perekrestok Group's total revenue during each 2005, 2004 and 2003, increased in 2005 by 55% to US\$987.4 million from US\$638.4 million in 2004, and increased by 77% in 2004 from US\$360.2 million in 2003. The increase in retail revenue was principally the result of opening new stores.

Wholesale revenue increased slightly during 2005 to US\$10.7 million from US\$10.2 million in 2004. As part of its strategy, the Perekrestok Group is focusing primarily on the retail sector, which resulted in nominal growth in the wholesale sector in 2005. Wholesale revenue increased in 2004 to US\$ 10.2 million from US\$7.8 in 2003.

Marketing and other services represent primarily revenue from advertising, placing fees and product entry fees, at no cost to the Perekrestok Group.

(2) Cost of goods sold and gross profit

The following table sets forth the Perekrestok Group's cost of goods sold and gross profit for the years ended 31 December 2005, 2004 and 2003 for each of the product categories indicated below:

	Year ended 31 December					
	2005		2004		2003	
	US\$	% of total	US\$	% of total	US\$	% of total
	<i>(in millions, except for percentages)</i>					
Cost of goods sold						
Retail	727.5	98.6%	471.4	97.9%	263.0	97.2%
Wholesale	10.2	1.4%	9.9	2.1%	7.5	2.8%
Marketing and other services	n/a	—	n/a	—	n/a	—
Total	737.7	100%	481.3	100%	270.5	100%
Gross Profit						
Retail	259.9	93.8%	167.1	93.4%	97.2	94.5%
Wholesale	0.5	0.2%	0.3	0.2%	0.3	0.3%
Marketing and other services	16.7	6.0%	11.4	6.4%	5.4	5.2%
Total Gross Profit	277.1	100%	178.8	100%	102.9	100%
Total Gross Margin	27.3%		27.1%		27.6%	
Gross Profit Margin by category						
Retail	26.3%		26.2%		27.0%	
Wholesale	4.7%		2.9%		3.8%	
Marketing and other services	n/a		n/a		n/a	

Cost of goods sold increased by 53%, to US\$737.7 million for the year ended 31 December 2005 from US\$481.3 million for the year ended 31 December 2004 and by 78%, for the year ended 31 December 2004 from US\$270.5 million for the year ended 31 December 2003. The increase in cost of goods sold over the period under review was due to the overall increase in sales volumes driven by new store openings.

Cost of goods sold for retail increased by 54% to US\$727.5 million for the year ended 31 December 2005 from US\$471.4 million for the year ended 31 December 2004 and by 79%, for the year ended 31 December 2004 from US\$263.0 million for the year ended 31 December 2003, consistent with the overall increase in retail sales.

Cost of goods sold for wholesale category increased to US\$10.2 million in 2005 from US\$9.9 million in 2004, consistent with a marginal increase in wholesale sales. Wholesale cost of goods sold increased by 32% in 2004 to US\$9.9 million from US\$7.5 million in 2003, due to increase in wholesale sales.

The Perekrestok Group's gross profit increased by 55%, to US\$277.1 million, for the year ended 31 December 2005 from US\$178.8 million for the year ended 31 December 2004 and by 74%, for the year ended 31 December 2004 from US\$102.9 million for the year ended 31 December 2003. The increase in gross profit was due to higher revenue, partially offset by increase in cost of goods sold.

The Perekrestok Group's gross profit margin as percentage of sales in retail product component increased by 0.1% in 2005 to 26.3% from 26.2% in 2004 primarily as a result of increase of supplier rebates and overall successful negotiation of more favourable terms with suppliers, which had a positive effect on cost of sales in 2005. In 2004, retail gross profit margin as percentage of sales decreased to 26.2% from 27.0% in 2003 primarily due to expansion to the regions, which resulted in lower margins in 2004.

The Perekrestok Group's gross profit margin as percentage of sales in the wholesale product component increased by 1.8% in 2005 to 4.7% from 2.9% in 2004 due to higher margins realised from moving to direct sales in 2005 from sales primarily through an intermediary wholesale service during 2004, and complemented by higher rebates and more favourable terms negotiated with suppliers in 2005. In 2004, the wholesale gross profit margin as percentage of sales decreased to 2.9% from 3.8% in 2003 primarily as a result of lower margin sales through an intermediary wholesale service starting in late 2003.

The Perekrestok Group's overall gross profit margin as percentage of sales increased slightly to 27.3% in 2005 from 27.1% in 2004, due to increase in gross profit margin of retail and wholesale product categories during 2005. The Perekrestok Group's gross profit margin decreased in 2004 to 27.1% from 27.6% due to lower margins as a result of expansion to the regions, partially offset by growth of revenues from marketing and other services.

(3) Operating expenses

The following table sets forth a breakdown of the Perekrestok Group's operating expenses for the three years ended 31 December 2005, 2004 and 2003:

	Year ended 31 December		
	2005	2004	2003
	(in US\$millions)		
Staff costs	105.2	69.0	42.2
Operating lease expenses	40.7	25.5	17.2
Depreciation of property, plant and equipment	23.1	14.8	9.4
Advertising	14.1	7.6	4.6
Utilities	13.2	6.8	2.4
Inventory shrinkage	11.5	6.4	2.5
Supplies and materials	10.3	6.1	4.3
Security costs	5.7	3.7	2.3
Taxes other than income tax	5.2	3.2	2.0
Repair and maintenance costs	5.0	2.9	1.9
Consulting and information services	6.0	2.4	1.6
Amortization of intangible assets	1.0	1.9	0.7
Bank charges	2.5	2.1	—
Transportation costs	1.6	0.7	—
Impairment of trade and other accounts receivable	1.7	—	—
Other operating expenses	7.1	5.1	2.6
Total	<u>253.9</u>	<u>158.2</u>	<u>93.6</u>

Operating expenses increased by US\$95.7 million or by 60.1%, to US\$253.9 million, for the year ended 31 December 2005 from US\$158.2 million for the year ended 31 December 2004 and by US\$64.6 million or by 69% for the year ended 31 December 2004 from US\$93.6 million for the year ended 31 December 2003. The increase in total operating expenses was primarily due to an increase in staff costs (resulting primarily from salary and number of employees increases), an increase in operating lease expenses (due to opening of new stores), an increase in depreciation expense (resulting from an increase in the number of stores operating on properties owned by the Perekrestok Group and acquisition of immovable property and new equipment by the Perekrestok Group for its stores and warehouses). As a percentage of revenue, the Perekrestok Group's operating expenses remained relatively constant and represented 25.0%, 24.0%, 25.1% of the revenue for the year ended 31 December 2005, 2004, 2003, respectively.

(4) Finance costs, net

The Perekrestok Group's finance costs for the year ended 31 December 2005 amounted to US\$14.4 million, for the year ended 31 December 2004 amounted to US\$7.7 million, for the year ended 31 December 2003 amounted to US\$3.0 million and consisted of interest expense on loans and interest income. Increase in finance costs during 2005 and 2004 was due to increase in borrowings to finance the Perekrestok Group's growth during these years.

(5) Operating profit and operating margin

Operating profit increased by 88.4%, to US\$56.9 million for the year ended 31 December 2005 from US\$30.2 million for the year ended 31 December 2004 and by 127% from US\$13.3 for the year ended 31 December 2003. The Perekrestok Group's operating margin (calculated as the percentage ratio of operating profit to revenue) continued to increase in 2005 to 5.6% from 4.6% in 2004 and from 3.6% in 2003. The increase was due to a substantial increase in gross profit (which was largely due to the factors discussed above), offset in part by an increase in operating expenses as discussed above.

(6) Income tax expense

Income tax expense for the years ended 31 December 2005, 2004 and 2003 is set forth in the following table:

	Year ended 31 December		
	2005	2004	2003
	(in US\$millions)		
Current income tax charge	7.1	9.1	3.5
Deferred income tax charge	2.0	2.6	0.3
Income tax charge for the period	9.1	11.7	3.8

Total income tax charge decreased by US\$2.6 million to US\$9.1 million for the year ended 31 December 2005 from US\$11.7 million for the year ended 31 December 2004 and increased by US\$7.9 million for the year ended 31 December 2004 from US\$3.8 for the year ended 31 December 2003.

The Perekrestok Group's effective income tax rate for 2005, 2004 and 2003 was 23.8%, 40.7% and 31.0%, respectively. Decrease in effective income tax rate to 23.8% in 2005 from 40.7% in 2004 was due primarily to a non-taxable gain on disposition of property plant and equipment in 2005, complemented by the Perekrestok Group's better use of low taxation jurisdictions within its structure, which was offset in part by an increase in provisioning for tax contingencies.

Increase in the effective income tax rate in 2004 compared to 2003 primarily relates to a provision for tax contingencies of US\$2.0 million. See Notes 14 and 16 to Perekrestok Group's Financial Statements for 2004 in paragraph 1.2(c)(iii) of this Part for more details.

(iv) Liquidity, Capital Resources and Cash Flow

In addition to financing the Perekrestok Group's existing operations, Perekrestok's liquidity needs arise principally from the need to finance the acquisition and construction of stores, as well as costs associated with their opening. In the periods under review, the Perekrestok Group has been able to meet most of its liquidity needs out of net cash provided by operating activities and out of bank borrowings. As at 31 December 2005, the Perekrestok Group had US\$30.1 million of cash and cash equivalents, compared to US\$52.6 million and US\$17.0 million at 31 December 2004 and 31 December 2003, respectively.

(1) Cash flows

The following table summarises the Perekrestok Group's statement of cash flows for the years ended 31 December 2005, 2004 and 2003

	Year ended 31 December		
	2005	2004	2003
	(in US\$millions)		
Net cash from operating activities	40.2	36.6	29.1
Net cash used in investing activities	(167.5)	(86.1)	(54.2)
Net cash used in financing activities	105.0	85.3	33.9

Net cash provided by operating activities

Net cash provided by operations for the year ended 31 December 2005 increased by US\$3.6 million or by 9.8% to US\$40.2 million compared to US\$36.6 million for the year ended 31 December 2004 due to increase in the Perekrestok Group's profitability. The operating cash flows represent income before taxation and minority interest adjusted for certain non-cash items including depreciation, amortisation and the effect of changes in working capital and other activities. Cash provided by operations for the year ended 31 December 2005 was US\$40.2 million and consisted of income before taxation of US\$38.1 million, adjustments for non-cash items of US\$38.2 million and US\$36.1 million used in working capital and other activities. Cash provided by operations for the year ended 31 December 2004 was US\$36.6 million and consisted of income before taxation of US\$28.7 million, adjustments for non-cash items of US\$24.6 million and US\$16.7 million used in working capital and other activities.

Net cash provided by operations for the year ended 31 December 2004 increased by US\$7.5 million to US\$36.6 million compared to US\$29.1 million for the year ended 31 December 2003 due to the growing profitability of the business. Net cash provided by operations for the year ended 31 December 2003 was US\$29.1 million and consisted of income before taxation of US\$12.3 million, adjustments for non-cash items of US\$13.6 million and US\$3.2 million provided by changes in working capital and other activities.

Net cash used in investing activities

Cash used in investing activities of US\$167.5 million for the year ended 31 December 2005 was primarily attributable to capital expenditures for the purchase of new property, plant and equipment of US\$147.9 million and US\$20.1 million used for acquisition of subsidiaries. Cash used in investing activities of US\$86.1 million for the year ended 31 December 2004 was also attributable to the purchase of new property, plant and equipment of US\$74.4 million and US\$13.5 for acquisition of subsidiaries.

Cash used in investing activities for the year ended 31 December 2003 of US\$54.2 million was primarily attributable to capital expenditures of US\$41.3 million and acquisition of subsidiaries of US\$11.7 million.

Net cash from financing activities

Cash flows from financing activities of US\$105.0 million for the year ended 31 December 2005 were mainly attributable to proceeds from short-term loans of US\$435.7 million, proceeds from long-term loans of US\$146.3 million, partially offset by repayment of short-term loans of US\$454.1 million. Cash flows from financing activities of US\$85.3 million for the year ended 31 December 2004 were mainly due to proceeds from short-term loans of US\$87.8 million, proceeds from long-term loans of US\$75.0 million, contribution from shareholders of US\$50.0 million partially offset by repayment of short-term and long-term loans of US\$105.5 and US\$22.0 million, respectively.

Cash flows from financing activities of US\$33.9 million for the year ended 31 December 2003 was mainly due to proceeds from short-term loans of US\$63.4 million, contribution from shareholders of US\$24.1 million, partially offset by repayment of short-term and long-term loans of US\$35.5 million and US\$19.2 million, respectively.

(2) *Borrowings*

The following table sets forth Perekrestok Group's borrowings as at the dates indicated:

	Year ended 31 December		
	2005	2004	2003
	(in US\$millions)		
Short-term loans	52.6	46.7	53.5
Long-term loans	144.1	43.5	3.2
Total borrowings	196.7	90.2	56.7

Short-term loans

In 2005 the Perekrestok Group obtained a US dollar denominated loan from Uralsib with an annual interest rate of 7.4%, maturing in 2006. As at 31 December 2005 the outstanding amount of loan was US\$0.75 million. As of 15 April 2006, the Perekrestok Group's outstanding amount under this loan facility was US\$8.0 million.

Over the periods under review, the company has entered into Rouble-denominated loan agreements with the Savings Bank of Russian Federation (Sberbank). The total amount outstanding under such loans as at 31 December 2004 was US\$2.5 million bearing interest at rates varying from 11% to 12% per annum. The loan was fully repaid during 2005.

As at 31 December 2004 the outstanding amount of a US dollar denominated loan from Commerzbank was US\$10 million with interest rate at LIBOR + 4.5%. The loan was fully repaid in 2005.

As at 31 December 2004 the outstanding amount of Rouble denominated loans from Alfa-Bank was US\$4.9 million, bearing interest from 10% to 14% per annum. In 2003, short-term loans from Alfa-Bank to the amount of US\$31.6 million represented on-going financing of the Perekrestok Group's working capital and investment requirements. These loans were fully repaid during 2005.

3-year Russia Rouble Bonds

In July 2005 the Perekrestok Group issued 3-year Russian Rouble denominated bonds in the amount of RR 1.5 bln. (US\$52.2 million) with fixed coupon of 8.81% p.a. for the first two years. Subsequent coupon rate to be determined in July 2006. The bond holders have a right to redeem the bonds in July 2006, therefore the entire issue outstanding at 31 December 2005 is classified as current.

Syndicated Loan

In 2005 Perekrestok Group repaid in full the syndicated loan received in 2004 from a group of international banks (HSBC and Raiffeisen) with maturity in 2006 and bearing annual interest rates of LIBOR+4.3%. Under this loan agreement the Perekrestok Group had pledged property, plant and equipment, inventory and all shares of ZAO "TH "Perekrestok". The net book value of pledged property, plant and equipment at 31 December 2004 was US\$92.0 million.

New Syndicated loan

In December 2005 the Perekrestok Group obtained a 2-year syndicated loan facility from foreign banks, consisting of two tranches. The Euro denominated tranche bears an effective annual rate of EUROLIBOR+3% with a total principal amount of EUR60 million. As at 31 December 2005 the Perekrestok Group had US\$73.9 million outstanding under the Euro denominated tranche. The US\$ denominated tranche bears an effective annual interest rate of LIBOR+3% with a total principal amount of US\$75 million and US\$70.2 million outstanding as at 31 December 2005.

Loan from EBRD

From 1999 the Perekrestok Group maintained a loan facility from EBRD, which was fully repaid during 2004. The loan facility was secured by the Perekrestok Group's property, plant and equipment. The net book value of pledged property, plant and equipment was US\$33.7 million at 31 December 2003. Also, all Perekrestok Group shares and certain other assets owned by Alfa Group were pledged as security for the loan facility. In 2003 the Perekrestok Group made principal repayments totalling US\$5.7 million as well as accelerated repayments of US\$0.5 million. Accelerated repayments were required when available cash exceeded projected requirements and were applied in reverse order of maturity to the loan principal without prepayment penalty. As at 31 December 2003 the amount outstanding was US\$21.8 million. The interest rate on the loan was LIBOR+4.3%. The loan was fully repaid during 2004.

(3) Capital expenditures

The Perekrestok Group's total capital expenditures amounted to US\$147.9 million, US\$74.4 million and US\$41.2 million in 2005, 2004 and 2003, respectively. The Perekrestok Group's capital expenditures during these periods have been largely driven by its aggressive store roll-out strategy and related primarily to purchase of property, plant and equipment, construction of new stores and store launch costs.

(4) Contractual obligations and commitments

The Perekrestok Group had contractual obligations under operating leases as at 31 December 2005 of US\$239.5 million, representing expected value of future minimum lease payments under non-cancellable operating leases. Also, as at 31 December 2005 the Perekrestok Group had capital commitments of US\$25.5 million related primarily to contractual commitments relating to purchases of new stores and new store equipment.

(5) Contingencies

Russian tax legislation is subject to varying interpretation and constant changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Perekrestok Group may not coincide with its management. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, transactions undertaken by the Perekrestok Group from time to time may be challenged by tax authorities and the Perekrestok Group may be assessed additional taxes, penalties and interest, which can be significant. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there is scope for companies to structure transactions so as to take advantage of possibilities in the Russian tax legislation to reduce the overall effective tax rate. As part of the conversion of its financial statements to International Accounting Standards, the Perekrestok Group recorded certain transactions differently from the underlying statutory accounting and tax reports to reflect their underlying economic substance. Although there have historically been no significant liabilities arising from tax assessments on these matters, the potential for assessments remains and the result of an assessment could be material for the Perekrestok Group.

Perekrestok Group's management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Perekrestok Group has operations. Furthermore, Perekrestok Group's management regularly assesses the potential financial exposure relating to tax contingencies for which the 3 years tax inspection right has expired but which, under certain circumstances, may be challenged by regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Perekrestok Group's management has recorded provisions of \$8,000 in the Group's consolidated financial statements as at 31 December 2005 as their best estimate of potential liabilities arising from such tax contingencies. However, the range of potential exposures has not been disclosed to avoid prejudicing the Perekrestok Group's position. Perekrestok Group's management have taken active steps to reduce the possibility of such risks in the future.

(6) Critical Accounting Policies, Estimates and Judgements in Applying Accounting Policies

The Perekrestok Group prepares its consolidated financial statements in accordance with IFRS. The Perekrestok Group's parent company was registered in Gibraltar. The Perekrestok Group's entities, registered in the territory of the Russian Federation, maintain their accounting records in roubles and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The Perekrestok Group's consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Entities that are registered under the legislation of countries outside of the Russian Federation maintain financial statements on IFRS basis.

The Perekrestok Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Perekrestok Group's management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include: estimated impairment of goodwill, tax legislation, related party transactions, useful lives of property, plant and equipment, fair value of net assets of subsidiaries acquired and fair value of lease rights.

Functional and presentation currency

Functional currency of each of the Perekrestok Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Perekrestok Group companies' functional currencies are

national currency of the Russian Federation, Russian Roubles (“**RR**”) and national currency of Ukraine, Ukrainian Hrynvia (“**UAH**”). The Perekrestok Group’s presentation currency is the US Dollar.

The results and financial position of each entity of the Perekrestok Group (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity as a cumulative translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

At 31 December 2005, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 28.7825 (2004: USD 1 = RR 27.7487). Average rate for 2005 was USD 1 = RR 28.2864 (2004: USD 1 = RR 28.8080).

At 31 December 2005, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 5.0500 (2004: USD 1 = UAH 5.3054). Average rate for 2005 was USD 1 = UAH 5.1160 (2004: USD 1 = UAH 5.3188).

Consolidated financial statements

Subsidiary undertakings, which are those entities in which the Perekrestok Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Perekrestok Group and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred.

Sales are determined by reference to the sales price of the goods delivered during the year. Revenue from the sale of goods through retail outlets is recognized at the point of sale, net of value added tax and discounts. Revenue from leasing premises as well as from wholesale activities is recognised when premises are provided and goods are shipped and the buyer accepts delivery. Rent payments received in advance for the leasing of space are recorded as deferred revenue on the balance sheet. Cost of goods sold comprises the purchase price of goods sold.

Inventories

Inventories at warehouses and retail outlets are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Value added tax

Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases except for input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

At each reporting date the Perekrestok Group's management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

Recent accounting pronouncements

ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Group estimates it would receive currently for an asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group now derecognises the carrying amount of a component of

property, plant and equipment which has been replaced and capitalises the cost of the replacement. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not have a significant effect on the carrying amount of the Group's assets.

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations – namely that described in the previous version of IAS 21 as applied to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively. Retrospective application of these translation principles resulted in the creation, as at 1 January 2005, of a cumulative translation reserve of US\$12.1 million (1 January 2004: US\$5.7 million) and a decrease of additional paid in capital and retained earnings by US\$10.4 million (1 January 2004: US\$5.3 million) and US\$1.8 (1 January 2004: US\$0.4 million), respectively.

IAS 38 (revised 2004) Intangible Assets. Starting from 1 January 2005 the Group ceased to amortise the goodwill acquired before 31 March 2004. Prospectively, the goodwill will be tested for impairment. Management plans to perform its annual goodwill impairment review as at 31 December 2005.

IAS 32 (revised 2003) Financial Instruments: Disclosure and presentation. IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. IAS 32 (revised 2003) and IAS 39 (revised 2004) are effective from 1 January 2005 but the Group used the early adoption provisions in these standards for the preparation of the consolidated financial statements for the year ended 31 December 2004.

NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted. These new standards and interpretations are not expected to significantly affect the Group's financial statements.

- IAS 39 (Amendment) – The Fair Value Option
- 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment) – Financial Guarantee Contracts
- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures.
- IAS 19 (Amendment) – Employee Benefits
- IFRIC 4, Determining whether an Arrangement contains a Lease

(7) Disclosures about Market Risk

In the normal course of business, the Perekrestok Group's financial position is routinely subject to a variety of market risks. The Perekrestok Group is exposed to market risks associated with credit risk, foreign currency exchange rates and interest rates.

The Perekrestok Group has not historically entered into hedge transactions to manage the risks specified above.

The Perekrestok Group has have not historically held or issued derivative financial instruments for trading purposes.

Interest rate risk

The Perekrestok Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term and long-term borrowings.

Foreign currency exchange rate risk

The Perekrestok Group's functional currency is the Russian Rouble and presentation currency is the US Dollar. The Perekrestok Group is exposed to foreign currency risk on borrowings denominated in currency other than the Russian Rouble. Decreases in the value of the Russian Rouble relative to the US dollar will increase the Perekrestok Group's foreign currency denominated costs and expenses and its debt service obligations for foreign currency denominated borrowings.

Credit risk

The Perekrestok Group is subject to credit risk on trade and other receivables. Perekrestok believes that policies are in place to ensure that sales of products and services are made to wholesales customers with an appropriate credit history and the carrying amount of third party accounts receivable represents the maximum amount exposed to credit risk.

Off balance sheet activities

As of 31 December 2005, 2004 and 2003, the Perekrestok Group did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

(c) Financial information

(i) Independent Auditors

The Perekrestok Financial Statements and related Notes prepared in accordance with IFRS have been audited by the independent auditors, PricewaterhouseCoopers, of Kosmodamianskaya Nab. 52, Bldg., 5115054 Moscow. The reports of PricewaterhouseCoopers, which are without qualification or reference to a matter of fundamental uncertainty appear below.

(ii) Independent Auditors' Reports

To the Board of Directors of Perekrestok Holdings Ltd:

- 1 We have audited the accompanying consolidated balance sheet of Perekrestok Holdings Ltd and its subsidiaries (the "**Group**") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements (as set out on pages 11 to 26) are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

/s/ PricewaterhouseCoopers

Moscow, Russian Federation

31 March 2006

To the Shareholders and Board of Directors of Perekrestok Holdings Ltd

We have audited the accompanying consolidated balance sheet of Perekrestok Holdings Ltd and its subsidiaries (the "**Group**") at 31 December 2004 and the related consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended. These consolidated financial statements as set out on pages 1 to 22 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2004 and the results of its operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

/s/ PricewaterhouseCoopers

Moscow, Russian Federation

31 March 2005

(iii) Audited Perekrestok Financial Statements

PEREKRESTOK HOLDINGS LTD
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	31 December 2005	31 December 2004
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	324,598	211,612
Intangible assets	12	43,193	16,295
Prepaid lease	11	4,218	—
Loan to related party	9	5,250	—
Other		—	100
		377,259	228,007
CURRENT ASSETS			
Inventories of goods for resale		68,576	50,084
Short-term financial investments		12	1,978
Trade and other accounts receivable		24,528	9,376
VAT and other taxes recoverable		59,084	28,044
Cash	10	30,067	52,618
		182,267	142,100
TOTAL ASSETS		559,526	370,107
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital		30	30
Additional paid in capital		122,152	122,152
Cumulative translation reserve		5,724	12,148
Retained earnings		54,080	24,948
		181,986	159,278
Minority interest		—	1,862
Total equity		181,986	161,140
NON-CURRENT LIABILITIES			
Long-term borrowings	14	144,089	43,575
Deferred tax liabilities		16,674	13,579
Other non-current liabilities		146	152
		160,909	57,306
CURRENT LIABILITIES			
Trade accounts payable		119,634	70,160
Short-term borrowings	14	52,602	46,672
Interest accrued		702	249
Payable to related parties	9	2,758	1,206
Current income tax payable		5,018	1,530
Other accounts payable	13	35,917	31,844
		216,631	151,661
TOTAL LIABILITIES		377,540	208,967
TOTAL EQUITY AND LIABILITIES		559,526	370,107

A. Kosiyenko
 Chief Executive Officer
 31 March 2006

V. Podolskiy
 Chief Financial Officer
 31 March 2006

The notes on pages 126 to 150 form an integral part of these combined and consolidated financial statements.

PEREKRESTOK HOLDINGS LTD
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	2005	2004
SALES		1,014,785	660,047
COST OF GOODS SOLD		(737,721)	(481,284)
GROSS PROFIT		277,064	178,763
Operating expenses	17	(253,877)	(158,227)
Gain / (loss) from disposal of property, plant and equipment	22	18,139	(17)
Lease/sublease and other income		15,582	9,727
OPERATING PROFIT		56,908	30,246
Finance costs, net	19	(14,395)	(7,696)
Net foreign exchange (loss) / gain		(4,420)	6,108
PROFIT BEFORE TAX		38,093	28,658
Income tax expense	21	(9,074)	(11,672)
PROFIT FOR THE YEAR		29,019	16,986
Attributable to:			
Equity holders of the parent		29,132	16,847
Minority interest		(113)	139
PROFIT FOR THE YEAR		29,019	16,986
Earnings per share for profit attributable to the equity holders of the Parent (expressed in USD per share)			
basic and diluted	16	18.71	11.62

A. Kosiyenko
Chief Executive Officer
31 March 2006

V. Podolskiy
Chief Financial Officer
31 March 2006

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PEREKRESTOK HOLDINGS LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	Attributable to the shareholders of Perekrestok Holdings Ltd.					Total shareholders' equity	Minority interest	Total
		Number of shares	Share capital	Additional paid in capital	Cumulative translation reserve	Retained earnings			
As previously reported as at 31 December 2003		14,444	2	77,520	—	8,456	85,978	2,488	88,466
Adjustment due to adoption of revised IAS 21	4	—	—	(5,340)	5,695	(355)	—	—	—
Balance as at 1 January 2004		14,444	2	72,180	5,695	8,101	85,978	2,488	88,466
Share capital split		1,429,956	—	—	—	—	—	—	—
Ordinary shares issue		111,108	28	49,972	—	—	50,000	—	50,000
Translation movement		—	—	—	6,453	—	6,453	—	6,453
Net profit for the year		—	—	—	—	16,847	16,847	139	16,986
Reduction of MI as a result of the additional acquisition of Rathmine Holdings Limited shares		—	—	—	—	—	—	(765)	(765)
Balance as at 31 December 2004		1,555,508	30	122,152	12,148	24,948	159,278	1,862	161,140
As previously reported as at 31 December 2004		1,555,508	30	132,537	—	26,711	159,278	1,862	161,140
Adjustment due to adoption of revised IAS 21	4	—	—	(10,385)	12,148	(1,763)	—	—	—
Balance as at 1 January 2005		1,555,508	30	122,152	12,148	24,948	159,278	1,862	161,140
Translation movement		—	—	—	(6,424)	—	(6,424)	—	(6,424)
Share-based payment	15	2,914	—	—	—	—	—	—	—
Net profit for the period		—	—	—	—	29,132	29,132	(113)	29,019
Reduction of MI as a result of the additional acquisition of Rathmine Holdings Limited shares	7	—	—	—	—	—	—	(1,749)	(1,749)
Balance as at 31 December 2005		1,558,422	30	122,152	5,724	54,080	181,986	—	181,986

A. Kosiyenko
Chief Executive Officer
31 March 2006

V. Podolskiy
Chief Financial Officer
31 March 2006

The notes on pages 126 to 150 form an integral part of these combined and consolidated financial statements.

PEREKRESTOK HOLDINGS LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	2005	2004
Profit before Tax		38,093	28,658
Adjustments for:			
Depreciation and amortisation	17	24,098	16,648
(Gain) / loss on disposal of property, plant and equipment	22	(18,139)	17
Loss on disposal of intangible assets		5	—
Inventory shrinkage	17	11,476	6,372
Finance costs, net	19	14,395	7,696
Impairment of trade and other accounts receivable	17	1,746	—
Loss on disposal of subsidiaries	8	220	—
Net foreign exchange loss / (gain)		4,420	(6,108)
Net cash from operating activities before changes in working capital		76,314	53,283
Increase in VAT recoverable		(30,114)	(11,751)
Increase in trade and other accounts receivable		(17,564)	(5,857)
Increase in inventories		(28,296)	(23,411)
Increase in trade accounts payable		48,293	26,424
Increase in other accounts payable		11,957	10,590
Translation effect on working capital		(713)	4,707
Net cash generated from operations		59,877	53,985
Interest paid		(12,393)	(6,185)
Administrative charges paid for loans received		(2,886)	(3,257)
Interest received		177	82
Income tax paid		(4,587)	(8,004)
Net cash from operating activities		40,188	36,621
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(147,903)	(74,402)
Non-current prepaid lease		(3,734)	—
Proceeds from sale of property, plant and equipment		8,608	1,382
Acquisition of subsidiaries		(20,138)	(13,491)
Long-term loan originated	9	(5,250)	—
Acquisition of investments available for sale		—	(3,371)
Proceeds from sale of investments available for sale		1,186	3,872
Purchase of intangible assets		(246)	(110)
Net cash used in investing activities		(167,477)	(86,120)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans		435,706	87,828
Proceeds from short-term bonds	14	52,217	—
Repayment of short-term loans		(454,131)	(105,530)
Proceeds from long-term loans		146,262	75,000
Repayment of long-term loans		(75,063)	(22,036)
Contribution from shareholders		—	50,000
Net cash from financing activities		104,991	85,262
Effect of exchange rate changes on cash and cash equivalents		(253)	(135)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(22,551)	35,628
MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year	10	52,618	16,990
(Decrease) / Increase		(22,551)	35,628
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	30,067	52,618

A. Kosiyenko
Chief Executive Officer
31 March 2006

V. Podolskiy
Chief Financial Officer
31 March 2006

The notes on pages 126 to 150 form an integral part of these combined and consolidated financial statements.

PEREKRESTOK HOLDINGS LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE

The main activity of the Perekrestok Group (the “Group”) is the development and operation of grocery retail stores within the Russian Federation. At 31 December 2005 the Group operated 120 stores (31 December 2004: 90), in Moscow, Moscow Region and other major population centers in Russia, including but not limited to St. Petersburg, Nizhniy Novgorod, Krasnodar, Kazan and Samara; and Kiev, Ukraine.

The parent company of the Group, Perekrestok Holdings Limited (the “Company”) was registered at 28 Irish Town, Gibraltar in 2000. The Company is a member of the Alfa Group. As of 31 December 2005, the immediate and ultimate parent company is CTF Holdings Limited (“CTFH”), a company registered at Suite 2, 4 Irish Place, Gibraltar and the parent entity of the Alfa Group. CTFH is owned by Mr Fridman, Mr Khan and Mr Kuzmichev (the “Shareholders”). None of the Shareholders controls and/or owns 50% or more in CTFH.

The Group principal entities are as follows:

Company	Country	Nature of operations	Ownership (%)	
			2005	2004
ZAO “TH Perekriostok”	Russia	Retailing	100	100
OOO “Perekriostok-2000”	Russia	Retailing	100	100
OOO “Discount-Invest”	Russia	Retailing	100	100
OOO “Retailorg NK”	Russia	Real estate	100	100
ZAO “STD Holding”	Russia	Real estate	100	100
Rathmine Holdings Ltd.	Cyprus	Holding Company	100	86
ZAO “Loximer”	Russia	Retailing	100	100
ZAT “Center SPAR Ukraine”	Ukraine	Retailing	100	—
ZAO “Credo-Estate”	Russia	Real estate	100	100
Alpegru Retail Properties Ltd	Cyprus	Real estate	100	100
OOO “Sladkaya Zhizn N.N.”	Russia	Retailing	100	86

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”). Group companies maintain their accounting records in Russian Rouble (“RR”) and prepare their statutory financial statements in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting adopted by the decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 N 34n. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Entities that are registered under the legislation of countries outside of the Russian Federation maintain financial statements which are based on IFRS principles.

2.2 Accounting for the effects of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 (“Financial Reporting in Hyperinflationary Economies”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the

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Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

2.3 Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

2.4 Minority interest

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

In purchases of minority interests the difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as goodwill. In disposal of minority interests the difference, if any, between the carrying amount of a minority interest and the amount received is recorded in the statement of income.

2.5 Foreign currency translation and transactions

(a) Functional and presentation currency

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currencies are national currency of the Russian Federation, Russian Roubles ("RR") and national currency of Ukraine, Ukrainian Hrynvia ("UAH"). The Group's presentation currency is the US Dollar.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") at the respective balance sheet dates. Foreign exchange gains

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and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency. The results and financial position of each group entity (none of which have a functional currency that is the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity as a cumulative translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

(b) Transactions and balances

Monetary assets and liabilities, which are held by Group entities and denominated in foreign currencies at 31 December 2005, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of operations.

At 31 December 2005, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 28.7825 (2004: USD 1 = RR 27.7487). Average rate for 2005 was USD 1 = RR 28.2864 (2004: USD 1 = RR 28.8080).

At 31 December 2005, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 5.0500 (2004: USD 1 = UAH 5.3054). Average rate for 2005 was USD 1 = UAH 5.1160 (2004: USD 1 = UAH 5.3188).

Exchange restrictions and controls exist relating to converting the RR into other currencies. The RR is not a convertible currency outside of the Russian Federation and the Commonwealth of Independent States (CIS).

2.6 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

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2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

Buildings	4% per annum
Machinery and equipment	15% per annum
Computer equipment	25% per annum
Office equipment	20% per annum
Furniture and fixtures	14% per annum

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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(b) Lease rights

Lease rights represent rights for favorable operating leases. Lease rights are recognised initially at fair value and amortised within the term of the validity of respective lease contracts that are on average 10 years.

(c) Other intangible assets (finite life)

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives that are, on average, 10 years.

(d) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

2.9 Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised in the income statement on a straight-line basis over the lease term.

2.10 Trade receivables

Trade receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

2.11 Inventories of goods for resale

Inventories at warehouses and retail outlets are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

2.12 Cash

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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2.14 Value added tax

Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases except for input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.15 Employee benefits

Wages, salaries, bonuses, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by the employees of the Group. The Group's entities contribute to the Russian Federation's state pension and social insurance funds in respect of its employees. These contributions are expensed as incurred. The Group's commitment ends with the payment of these contributions.

2.16 Income taxes

Income taxes payable are provided for on the basis of estimates of the tax liability for the year, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the balance sheet date. The Group provides against tax contingencies and the related interest and penalties where Management can make a reliable estimate of the amount of the additional taxes that may be due. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and considered as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for such taxes, interest and penalties are calculated based on Management's best estimate of the obligations, in accordance with rates set out in the respective laws in effect at the balance sheet date (notes 21 and 24).

2.17 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. The following are the principal types of income and expenses and how they are recognised:

(a) Sales

Sales are determined by reference to the sales price of the goods delivered during the year. Revenue from the sale of goods through retail outlets is recognized at the point of sale, net of value added tax and discounts. Revenue from leasing premises as well as from wholesale activities is recognised when premises are provided and goods are shipped and the buyer accepts delivery. Rent payments received in advance for the leasing of space are recorded as deferred revenue on the balance sheet;

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(b) Cost of goods sold

Cost of goods sold comprises the purchase price of goods sold;

(c) Interest income and expense

Interest income and expense are recognised on an effective yield basis;

(d) Operating expenses

Operating expenses are recognised on an accrual basis as incurred.

2.18 Borrowings

Borrowings are carried at amortised cost using the effective interest method. During 2005 the Group changed its accounting policy to the benchmark treatment prescribed by IAS 23 “Borrowing Costs” of recognizing all borrowing costs as an expense in the period in which they are incurred. Management believes that the new policy is preferable because it results in a more transparent treatment of finance costs. The impact of the application of the new policy was immaterial and thus no adjustments were made to the comparatives of the prior periods. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid in capital.

2.20 Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

2.21 Earnings per share.

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12.

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Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 24).

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses (Note 9).

Useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles and technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Fair value of net assets of subsidiaries acquired. The Group's management determines the fair values of assets and liabilities acquired. These assessments are based on the estimates prepared by independent valuers (Note 7).

Fair value of lease rights. The Group's management determines the fair value of lease rights received for the disposal of a construction project in progress (Note 22). The assessment of the fair value of lease rights is based on the estimate market rates of the lease prepared by an independent valuator.

Accounting for incidental lease income. The Group leases out a portion of each store to provide auxiliary services to retail customers which are not provided by the Group. The purpose of the leases is to satisfy full scope of customers' needs rather than earn rental income. The Group accounts for the leased property in accordance with IAS 16 "Property, plant and equipment".

Accounting for rent expense. The Group leases retail outlets under terms of fixed and variable lease payments. The variable lease payments largely depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are then classified as minimum lease payments (Note 24).

4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'.

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. The Group has not discovered any material error in its prior period consolidated financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Group estimates it would receive currently for an asset if the asset were already of the age and in the

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condition expected at the end of its useful life. The Group now derecognises the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not have a significant effect on the carrying amount of the Group's assets.

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations – namely that described in the previous version of IAS 21 as applied to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively.

In translation to presentational currency the Group applies the following principles:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at exchange rates at the dates of the transactions; and
- (c) all resulting exchange differences are recognised as a separate component of equity as a cumulative translation reserve.

Retrospective application of these translation principles resulted in the creation, as at 1 January 2005, of a cumulative translation reserve of US Dollars 12,148 (1 January 2004: US Dollars 5,695) and a decrease of additional paid in capital and retained earnings by US Dollars 10,385 (1 January 2004: US Dollars 5,340) and US Dollars 1,763 (1 January 2004: US Dollars 355), respectively.

IAS 38 (revised 2004) Intangible Assets. Starting from 1 January 2005 the Group ceased to amortise the goodwill acquired before 31 March 2004. Prospectively, the goodwill will be tested for impairment. Management plans to perform its annual goodwill impairment review as at 31 December 2005.

IAS 32 (revised 2003) Financial Instruments: Disclosure and presentation. IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. IAS 32 (revised 2003) and IAS 39 (revised 2004) are effective from 1 January 2005 but the Group used the early adoption provisions in these standards for the preparation of the consolidated financial statements for the year ended 31 December 2004.

5. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted:

IAS 39 (Amendment), The Fair Value Option. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as 'at fair value through profit or loss'.

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item

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in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment), Financial Guarantee Contracts. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IAS 19 (Amendment), Employee Benefits. The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

IFRS 6, Exploration for and Evaluation of Mineral Resources. IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

IFRIC 4, Determining whether an Arrangement contains a Lease. IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment. The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

IFRIC 7, Applying the Restatement Approach under IAS 29. The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

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6. SEGMENTAL REPORTING

The primary reporting segments of the Group are geographic segments. During the year ended 31 December 2005 the Group had only one reporting segment, both geographic and business.

7. ACQUISITIONS

ZAT Centre SPAR Ukraine

In March 2005 the Group acquired 100% of the voting shares of ZAT Centre SPAR Ukraine for USD 6,839. ZAT Centre SPAR Ukraine operates four retail grocery stores in Kiev, Ukraine. The Group has recognized goodwill in the amount of USD 4,189 (Note 12).

Details of assets and liabilities acquired and goodwill recognized are as follows:

	Acquiree's carrying amount, Ukrainian GAAP	Fair value
Cash	136	136
Trade and other accounts receivables	44	152
Inventories of goods for resale	1,519	1,672
Property, plant and equipment (Note 11)	2,493	4,796
Intangible assets	43	3,177
Loans and borrowings	(1,860)	(1,860)
Trade accounts payable	(2,625)	(2,924)
Taxes liabilities (Note 24)	(123)	(1,038)
Deferred tax liability (Note 21)	—	(1,461)
Net assets acquired	(373)	2,650
Goodwill (Note 12)		4,189
Total acquisition cost		6,839
Less:		
Cash and cash equivalents acquired		(136)
Cash outflow on acquisition		6,703

Fair values of assets and liabilities acquired were identified based on an independent valuator's report.

The goodwill is attributable to the location of the property acquired and synergies expected to arise after the Group's acquisition of ZAT Centre SPAR Ukraine.

The acquired subsidiary contributed revenue of USD 21,005 and a net loss of USD 204. If the acquisition had occurred on 1 January 2005, the Group's revenue for 2005 would have been USD 1,022,342 and profit for 2005 would have been USD 29,059.

Rathmine Holdings Limited

During 2005 the Group acquired an additional 14.5% of the voting shares of Rathmine Holdings Limited for USD 6,655 and became the 100% owner of Rathmine Holdings Ltd. The Group acquired USD 1,749 of net assets of Rathmine Holdings Limited and recognised goodwill in the amount of USD 4,906.

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8. DISPOSAL OF SUBSIDIARIES

During 2005 the Group disposed of subsidiaries OOO MSKB and ZAO TK Zevs-T:

	MSKB	TK Zevs-T	2005
Assets disposed			
Cash	(13)	—	(13)
Investments available for sale	—	(142)	(142)
Trade and other accounts receivable	(86)	(42)	(128)
Property, plant and equipment (Note 11)	(60)	—	(60)
Deferred tax asset	(12)	(16)	(28)
Liabilities disposed			
Short-term loans	119	5	124
Trade accounts payable	—	12	12
Net assets disposed	(52)	(183)	(235)
Consideration received	10	5	15
Loss on disposal of subsidiaries	(42)	(178)	(220)

9. RELATED PARTY TRANSACTIONS

The nature of the relationships for those with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2005 are detailed below.

Alfa Group

The following transactions were carried out with members of Alfa Group:

	Relationship	2005	2004
CTF Holdings Ltd			
Capital contribution received	Parent	—	41,141
Management services received		816	781
OAO "Alfa Bank"			
Interest expense on loans received	Under common control	1,604	1,652
VimpelCom			
Communication services rendered by VimpelCom to the Group	Under common control	159	343
Commission for services of mobile phone payments processing rendered by the Group to VimpelCom		933	334

The consolidated financial statements include the following balances with members of the Alfa Group:

	2005	2004
Cash and cash equivalents		
OAO "Alfa Bank"	5,442	4,601
Short-term loans		
OAO "Alfa Bank"	—	4,872
Receivable from related party		
VimpelCom	113	7
Other accounts payable		
VimpelCom	1	305

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Alfa-bank

The Group has an open credit line with Alfa-Bank. This credit line has maximum limit of USD 100 millions and a floating interest rate. At 31 December 2005 the annual interest rate on this credit line was 8.75%. At 31 December 2005 Group have this credit line has not been utilized.

OOO Firma Sladkaya Zhizn

OOO “Firma Sladkaya Zhizn” is one of the significant suppliers of goods for resale and it is affiliated with one of the minority shareholders, who is also a member of the senior management of the Group. Subsequent to the balance sheet date this company was excluded from related parties as the individual is no longer a shareholder and resigned from management.

The following transactions were carried out with OOO Firma Sladkaya Zhizn:

	2005	2004
Purchases of goods for resale	34,383	21,327

The consolidated financial statements include the following balances with OOO Firma Sladkaya Zhizn:

	2005	2004
Receivable from related party	20	61
Trade accounts payable	2,226	742

Other related parties

The following transactions were carried out with other related parties controlled by management of the Group:

Donette Investments Limited

As at 31 December 2005 the Group provided a long-term loan to Donette Investments Limited in the amount of USD 5,250 with an interest rate of 10% p.a. (31 December 2004: nil). The loan matures in 2014.

OAO “TD GUM”

In 2005 OAO “TD GUM” was excluded from related parties as a member of the senior management of the Group ceased to be affiliated with OAO “TD GUM”. The following transactions were carried out with OAO “TD GUM”:

	2005	2004
Operating lease expenses	—	1,420

The consolidated financial statements include the following balances with OAO “TD GUM”:

	2005	2004
Accounts payable	—	159

ZAO “Novye Roznichnye Technologii”

The following transactions were carried out with ZAO “Novye Roznichnye Technologii”:

	2005	2004
Operating lease expenses	458	—

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The consolidated financial statements include the following balances with ZAO “Novye Roznichnye Technologii”:

	2005	2004
Accounts payable	531	—

Directors’ compensation

Directors’ compensation is disclosed in Note 20.

Start-Up Investments Limited

In 2005 the Group issued 2,914 ordinary shares as a share-based payment to Start-Up Investments Limited, which is controlled by the member of senior management of the Group (Note 15).

10. CASH

	2005	2004
Cash in hand – Roubles	2,557	1,376
Cash in hand – Ukrainian Hryvnia	115	—
Bank current account – Roubles	6,487	9,006
Bank current account – Ukrainian Hryvnia	138	—
Hard currency bank accounts – US Dollar	614	31,822
Cash in transit – Roubles	20,156	10,414
	30,067	52,618

The bank accounts represent current accounts with an effective interest rate of nil. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

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11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Office equipment	Furniture and fixtures	Construction in progress	Total
Cost:						
At 1 January 2004	99,849	52,204	4,841	1,387	15,205	173,486
Additions	3,940	2,811	—	8	67,513	74,272
Transfers	46,264	7,820	1,235	557	(55,876)	—
Assets from acquisitions	4,007	2,039	41	10	1	6,098
Disposals	—	(1,999)	(605)	(86)	(1)	(2,691)
Translation movement	6,138	3,209	298	85	935	10,665
At 31 December 2004	160,198	66,084	5,810	1,961	27,777	261,830
Additions	5,989	26,220	50	52	115,592	147,903
Transfers	65,113	17,904	1,720	1,124	(85,861)	—
Assets from acquisitions (Note 7)	2,902	1,380	457	52	5	4,796
Disposals	(1,276)	(279)	(567)	(3)	(6,023)	(8,148)
Disposals of subsidiaries (Note 8)	—	(92)	(8)	(4)	—	(104)
Translation movement	(7,764)	(3,644)	(208)	(88)	(1,325)	(13,029)
At 31 December 2005	225,162	107,573	7,254	3,094	50,165	393,248
Accumulated depreciation:						
At 1 January 2004	(14,040)	(17,213)	(2,287)	(543)	—	(34,083)
Charge for the year	(4,705)	(7,793)	(2,037)	(233)	—	(14,768)
Disposals	—	911	366	15	—	1,292
Translation movement	(1,043)	(1,356)	(218)	(42)	—	(2,659)
At 31 December 2004	(19,788)	(25,451)	(4,176)	(803)	—	(50,218)
At 1 January 2005	(19,788)	(25,451)	(4,176)	(803)	—	(50,218)
Charge for the year	(7,103)	(13,369)	(2,245)	(344)	—	(23,061)
Disposals	211	218	534	1	—	964
Disposals of subsidiaries (Note 8)	—	37	5	2	—	44
Translation movement	1,780	1,633	173	35	—	3,621
At 31 December 2005	(24,900)	(36,932)	(5,709)	(1,109)	—	(68,650)
Net book value at 31 December 2005	200,262	70,641	1,545	1,985	50,165	324,598
Net book value at 1 January 2005	140,410	40,633	1,634	1,158	27,777	211,612

Construction in progress predominantly relates to development of stores constructed through sub-contractors.

VAT recoverable related to property, plant and equipment of USD 26,493 (2004: USD 11,559) is recorded as current assets, although VAT recoverability depends on registration of certain property, plant and equipment which may take a longer period than twelve months.

The buildings are mostly located on leased land. The land leases with periodical lease payments are disclosed as part of commitments under operating leases (Note 24). Certain land leases are prepaid for the period up to 49 years. Such prepayments are presented as non-current prepaid lease in the balance sheet and amounted to USD 4,218 (31 December 2004: nil).

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12. INTANGIBLE ASSETS

Intangible assets comprise goodwill on the acquisition of subsidiaries (Note 7), sales licenses and purchased software licenses.

	Goodwill	Software and other	Lease rights	Total
Cost:				
At 1 January 2004	7,509	978	—	8,487
Additions	9,810	110	—	9,920
Translation movement	643	60	—	703
At 31 December 2004	17,962	1,148	—	19,110
Derecognition of accumulated amortisation against gross book value at				
1 January 2005	(2,343)	—	—	(2,343)
At 1 January 2005	15,619	1,148	—	16,767
Additions	—	246	15,864	16,110
Acquisition of subsidiaries	9,095	45	3,131	12,271
Disposals	—	(120)	—	(120)
Translation movement	(561)	(39)	143	(457)
At 31 December 2005	24,153	1,280	19,138	44,571
Accumulated amortisation:				
At 1 January 2004	(541)	(259)	—	(800)
Charge for the year (amortisation of goodwill in respect to acquisitions before 1 April 2004 only)	(1,704)	(176)	—	(1,880)
Translation movement	(98)	(37)	—	(135)
At 31 December 2004	(2,343)	(472)	—	(2,815)
Derecognition of accumulated amortisation against gross book value at				
1 January 2005	2,343	—	—	2,343
At 1 January 2005	—	(472)	—	(472)
Charge for the period	—	(365)	(672)	(1,037)
Acquisition of subsidiaries	—	—	—	—
Disposals	—	115	—	115
Translation movement	—	18	(2)	16
At 31 December 2005	—	(704)	(674)	(1,378)
Net book value at 31 December 2005	24,153	576	18,464	43,193
Net book value at 1 January 2005	15,619	676	—	16,295

The Group ceased amortising goodwill with effect from 1 January 2005 (Note 2). Goodwill arising on the acquisition of subsidiaries before 31 March 2004 was previously amortised over a period of five years.

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Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	Number of stores	31 December 2005	Acquisition of subsidiaries	Translation movement	31 December 2004
Operations in Moscow, Russia	3	2,750	—	(102)	2,852
Operations in Nizhniy Novgorod, Russia	14	11,718	4,906	(253)	7,065
Operations in Yaroslavl, Russia	4	5,271	—	(197)	5,468
Operations in Samara, Russia	1	225	—	(9)	234
Operations in Kiev, Ukraine	4	4,189	4,189	—	—
		24,153	9,095	(561)	15,619

The recoverable amount of each CGU was determined based on value-in-use calculations, that use cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2005	2004
EBITDA growth rate	1% p.a.	1% p.a.
Pre-tax discount rate	14% p.a.	14% p.a.

Management determined the budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

If the EBITDA actually declined by 6% annually the Group would need to reduce the carrying amount of goodwill by USD 122. If the pre-tax discount rate increased to 20% p.a. the Group would need to reduce the carrying amount of goodwill by USD 27.

13. OTHER ACCOUNTS PAYABLE

	2005	2004
Taxes payable	15,175	7,756
Accrued salaries and bonuses	14,742	8,481
Payables to landlords	1,236	1,714
Payable for ZAO «Loximer» shares	—	6,399
Other accounts payable and accruals	4,764	7,494
	35,917	31,844

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14. BORROWINGS

	Currency	Effective rate, % p.a.	2005	2004
Short-term				
Current portion of 3 year bonds	RR	8.84*	51,715	—
UralSib	USD	7.4	750	—
Commerzbank	USD	LIBOR+4.15 - LIBOR+4.5	—	10,000
Sberbank	RR	11-12	—	2,474
Current portion of Syndicated Loan	USD	LIBOR+4.3	—	29,254
Other	RR	—	137	72
Alfa-bank	RR	10-14	—	4,872
			52,602	46,672
Long-term				
New syndicated loan (USD part)	USD	LIBOR+3	70,176	—
New syndicated loan (Euro part)	Euro	EURLIBOR+3	73,913	—
3 year bonds	RR	8.81%*	51,715	—
Syndicated loan	USD	LIBOR+4.3	—	72,829
Less Current portion of 3 year bonds / Syndicated Loan	USD	LIBOR+4.3	(51,715)	(29,254)
			144,089	43,575
Total borrowings			196,691	90,247

* In July 2005 the Group issued Russian Rouble denominated bonds in the amount of RR 1.5 bln. (USD 52,217 thousand). The bonds have a maturity of 3 years. Coupon income is payable twice a year. The interest rate for the first and second coupon is 8.81% p.a. The interest rates on further coupon payments will be determined by Management of the Group based on current market conditions and these interest rates will be announced in July 2006. The bond holders have a right to redeem the bonds in July 2006, therefore all the bonds are classified as a current liability in these consolidated financial statements. The bond origination costs amounted to USD 400. They reduced the amount of bonds drawn down and are amortised over the estimated life of the bonds.

The new syndicated loan at 31 December 2005 is shown net of related deferred administrative charges of USD 2,173 (2004: nil) which are amortised over the term of the loan.

Maturity of non-current borrowings:

	2005	2004
1 to 3 years	144,089	43,575
3 to 5 years	—	—
	144,089	43,575

15. SHARE CAPITAL

Based on a shareholders' decision in August 2005, authorised share capital of GBP 15,555.08 consisting of 1,555,508 ordinary shares at 1 pence par value was increased to GBP 16,181.08 consisting of 1,618,108 ordinary shares at 1 pence par value.

Based on a shareholders' decision in August 2005, 2,914 ordinary shares were issued to existing shareholder as a share-based payment. As the shares of the parent company of the Group are unquoted, the fair value of the share-based payment was assessed based on the net assets of the Group and is insignificant (Note 9).

The total number of authorised ordinary shares at 31 December 2005 is 1,618,108 shares (2004: 1,555,508 shares). The total number of unissued ordinary shares at 31 December 2005 is 59,686 shares (2004: nil). All issued ordinary shares are fully paid.

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The issued share capital is GBP 15,584.22, which is reported as USD 30 (2004: USD 30).

No dividends were paid or declared in 2005 and 2004.

The statutory accounting reports of the Group's entities are the basis for profit distribution and other appropriations. For the Russia-based subsidiaries, Russian legislation identifies the basis of distribution as the net profit. For 2005, the current year net statutory profit for the Russia-based subsidiaries of the Group as reported in the published annual statutory reporting forms was USD 1,510 (2004: USD 14,259). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

16. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

Earnings per share from continuing operations are calculated as follows:

	2005	2004
Profit attributable to equity holders of the Company	29,132	16,847
Weighted average number of ordinary shares in issue	1,556,642	1,449,257
Basic and diluted earnings per share for profit from continuing operations (expressed in USD per share)	18.71	11.62

17. OPERATING EXPENSES

	2005	2004
Staff costs	20 105,208	68,973
Operating lease expenses	40,661	25,501
Depreciation of property, plant and equipment	11 23,061	14,768
Utilities	13,155	6,776
Inventory shrinkage	11,476	6,372
Supplies and materials	10,295	6,136
Advertising	14,086	7,647
Consulting and information services	6,004	2,449
Security costs	5,708	3,701
Repair and maintenance costs	4,969	2,913
Taxes other than income tax	5,178	3,261
Bank charges	2,541	2,103
Impairment of trade and other accounts receivable	1,746	—
Transportation costs	1,608	663
Amortisation of intangible assets	12 1,037	1,880
Other operating expenses	7,144	5,084
	253,877	158,227

The provision for impairment of receivables of USD 1,746 (2004: nil) is established primarily for uncollectible advances.

Operating lease expenses include USD 39,251(2004: 24,617) of minimum lease payments and contingent rents of USD 1,410 (2004: USD 884).

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18. OPERATING LEASES

The Group leases part of its retail space in stores to companies selling supplementary goods and services to customers. The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease payments receivable under non-cancelable operating leases are as follows:

	2005	2004
Not later than 1 year	6,547	5,124
Later than 1 year and no later than 5 years	198	1,105
Later than 5 years	—	—
	6,745	6,229

The rental income from operating leases recognized in the income statement amounted to USD 11,469 (2004: USD 7,811). There were no contingent rents recognized in the income statement in 2005 (2004: nil).

19. FINANCE COSTS, NET

	2005	2004
Interest expense	14,572	7,778
Interest income	(177)	(82)
	14,395	7,696

20. STAFF COSTS

	2005	2004
Wages and salaries	93,361	62,238
Social security costs	11,847	6,735
	105,208	68,973

Key executive management personnel

Key management personnel received compensation in the form of short-term employee benefits. For the year ended 31 December 2005 key management personnel were entitled to total compensation of USD 5,652 (2004: USD 5,014), including discretionary payments of USD 3,648 (2004: USD 3,306). The compensation is made up of annual remuneration and a performance bonus depending on operating results.

Average number of persons employed by the Group during the year:

	2005	2004
Permanent	12,519	8,877
Temporary	170	304
	12,689	9,181

21. INCOME TAX

	2005	2004
Current income tax charge	7,075	9,062
Deferred income tax charge	1,999	2,610
Income tax charge for the year	9,074	11,672

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Net profit before taxation for financial reporting purposes is reconciled to income tax expense as follows:

	2005	2004
Profit before taxation	38,093	28,658
Theoretical tax at the effective statutory rates*	9,449	6,878
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income not assessable for taxation	(10,871)	(4,173)
Inventory shrinkage expenses	2,754	1,529
Amortization of goodwill	—	451
Other non-deductible expenses	4,257	4,987
Provision for tax contingencies (Note 24)	3,485	2,000
Income tax charge for the year	9,074	11,672

* Profit before taxation on Russian operations is assessed based on statutory rate of 24%, profit before taxation on Ukrainian operations is assessed based on statutory rate of 25%.

Deferred income tax

Differences between IFRS and statutory taxation and reporting regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% for Russian operations and of 25% for Ukrainian operations in the current year.

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2005:

	31 December 2004	Movement in year	Deferred tax on business combinations (Note 7)	Deferred tax liability in disposed subsidiaries (Note 8)	Translation movement	31 December 2005
Tax effects of deductible temporary differences:						
Tax losses available for carry forward	1,471	(152)	—	—	(50)	1,269
Accounts Receivable	795	2,600	—	(28)	(366)	3,001
Other	(140)	(1,046)	—	—	55	(1,131)
Gross deferred tax asset	2,126	1,402	—	(28)	(361)	3,139
Less offsetting with deferred tax liabilities	(2,126)	(1,402)	—	28	361	(3,139)
Recognised deferred tax asset	—	—	—	—	—	—
Tax effects of taxable temporary difference:						
Property, plant and equipment	(15,563)	772	(678)	—	705	(14,764)
Intangible assets	(143)	(4,173)	(783)	—	50	(5,049)
Gross deferred tax liability	(15,706)	(3,401)	(1,461)	—	755	(19,813)
Less offsetting with deferred tax assets	2,126	1,402	—	(28)	(361)	3,139
Recognised deferred tax liability	(13,580)	(1,999)	(1,461)	(28)	394	(16,674)

Tax losses can generally be used to offset future taxable profits over the subsequent 10 years. The Group's tax losses carried forward would fully expire within 9 years from the reporting date. The maximum offset in any one

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year is limited to 30% of the total taxable profit of the year. The Group recognized deferred tax assets in relation to unused tax losses. Management considers that there will be sufficient taxable income to recover these losses in full.

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 1,510 (2004: USD 14,259) for which the deferred tax liability was not recognized as such amounts are reinvested.

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2004:

	31 December 2003	Movement in year	Deferred tax liability on acquisitions	Translation movement	31 December 2004
Tax effects of deductible temporary differences:					
Tax losses available for carry forward	2,038	(668)	—	101	1,471
Accounts Receivable	3,705	(3,027)	—	117	795
Other	890	(950)	—	(80)	(140)
Gross deferred tax asset	6,633	(4,645)	—	138	2,126
Less offsetting with deferred tax liabilities	(6,633)	4,645	—	(138)	(2,126)
Recognised deferred tax asset	—	—	—	—	—
Tax effects of taxable temporary difference:					
Property, plant and equipment	(15,861)	2,178	(949)	(930)	(15,562)
Intangible assets	—	(143)	—	—	(143)
Gross deferred tax liability	(15,861)	2,035	(949)	(930)	(15,705)
Less offsetting with deferred tax assets	6,633	(4,645)	—	138	2,126
Recognised deferred tax liability	(9,228)	(2,610)	(949)	(792)	(13,579)

22. GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

During June 2005 the Group entered into an agreement with a third party for the sale of a construction project in progress.

	<u>2005</u>
Consideration received	
Cash and cash equivalents	8,000
Fair value of short-term accounts receivable	2,350
Fair value of lease rights received*	<u>15,864</u>
Total consideration received	26,214
Costs related to disposal	
Carrying amount of object of construction in progress	(6,023)
Costs directly attributable to disposal	<u>(1,500)</u>
Total costs related to disposal	<u>(7,523)</u>
Net gain on disposal of object of construction in progress	18,691
Net loss on disposals of other property, plant and equipment	<u>(552)</u>
	<u><u>18,139</u></u>

* Lease rights represent rights for favorable operating lease of retail outlets. In February 2006 Group engaged ZAO NeoCenter, an independent valuator, to perform a valuation of market rates in relation to lease rights received. Based on these market rates the Group has identified the fair value of the lease rights received by the calculation of the net present value of the difference between market rates and the rates determined by the lease agreements. The net present value was calculated utilizing a discount rate of 16%.

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Non-cash consideration from the disposal of the construction project in progress has been excluded from the cash flow statement.

23. FINANCIAL RISKS

Credit risk

Financial assets, which are potentially subject to credit risk, consist principally of cash and cash equivalents held in banks, trade and other receivables. The Group has no other significant concentrations of credit risk. Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default. The Group has policies in place to ensure that sales of products and services are made to wholesales customers with an appropriate credit history. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Foreign exchange risk

The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 14). The Group does not utilise financial instruments to hedge against its exposure to fluctuations in foreign exchange rates (or interest rates, see below). The Group does not have formal arrangements to mitigate the foreign exchange risks of their operations.

Interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term and long-term borrowings. The Group has no significant interest-bearing assets.

Fair values

The fair value of bonds traded on the MICEX is determined based on market quotations and amounted to USD 52,193 at 31 December 2005 (2004: nil).

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and making assumptions that are based on market conditions existing at each balance sheet date.

The carrying amounts of financial assets and liabilities with a maturity of less than three months are assumed to approximate their fair values. At 31 December 2005 and 2004, the fair value of long-term borrowings was estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. This fair value was not materially different from the carrying amount for the borrowings.

Liquidity risk

At 31 December 2005 the Group has negative working capital of USD 34,364 (31 December 2004: USD 9,561). Management considers that the redemption of the 3 year bonds classified as current liabilities can be effectively controlled to minimize claims for redemption during the redemption period. Accordingly, management does not anticipate any significant redemption to occur.

Furthermore, the Group has adequate credit lines with Alfa-bank (Note 9) and other banks that at 31 December 2005 were not utilized. These available credit lines enable the Group to avoid possible liquidity risks arising from the potential redemption of all or part of the bonds issued and other cash requirements.

PEREKRESTOK HOLDINGS LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEAR ENDED 31 DECEMBER 2005
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

24. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2005, the Group operated 73 stores through rented premises (31 December 2004: 54). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts and predominantly denominated in USD. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover.

The expected future minimum lease payments under non-cancellable operating leases of property are as follows (net of VAT):

	2005	2004
2006	30,897	21,624
2007	26,550	20,275
2008	25,668	19,994
2009	25,236	19,734
2010	24,222	18,919
Thereafter	106,914	84,261
	239,487	184,807

Capital commitments

At 31 December 2005 the Group had contracted for USD 25,483 (including VAT) (31 December 2004: USD 9,826) of capital expenditure.

Taxation environment

Russian tax legislation is subject to varying interpretation and constant changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group may not coincide with that of Management. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, transactions undertaken by the Group from time to time may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. Fiscal periods remain open to review by the authorities in respect of taxes for the three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there is scope for companies to structure transactions so as to take advantage of possibilities in the Russian tax legislation to reduce the overall effective tax rate. As part of the conversion of its financial statements to International Accounting Standards, the Group recorded certain transactions differently from the underlying statutory accounting and tax reports to reflect their underlying economic substance. Although there have historically been no significant liabilities arising from tax assessments on these matters, the potential for assessments remains and the result of an assessment could be material for the Group.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, Management regularly assesses the potential financial exposure relating to tax contingencies for which the 3 years tax inspection right has expired but which, under certain circumstances, may be challenged by regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time

PEREKRESTOK HOLDINGS LTD

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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a number of open matters may exist. Management has recorded provisions of USD 8,000 in these consolidated financial statements as their best estimate of potential liabilities arising from such tax contingencies. However, the range of potential exposures has not been disclosed to avoid prejudicing the Group's position. Management have taken active steps to reduce the possibility of such risks in the future.

PEREKRESTOK HOLDINGS LTD
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	31 December 2004	31 December 2003
ASSETS			
CURRENT ASSETS			
Cash	5	52,618	16,990
Trade and other accounts receivable		9,308	3,998
Receivable from related party	4	68	353
VAT and other taxes recoverable		28,514	16,763
Short-term financial investments		1,978	1,663
Inventories of goods for resale		50,084	32,342
		142,570	72,109
NON-CURRENT ASSETS			
Property, plant and equipment	6	211,612	139,403
Intangible assets	7	16,295	7,687
Other		100	—
		228,007	147,090
TOTAL ASSETS		370,577	219,199
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Trade accounts payable		70,160	40,465
Payable to related parties	4	1,047	7,615
Other accounts payable	8	34,003	16,709
Short-term borrowings	9	46,672	53,457
Interest accrued		249	63
		152,131	118,309
NON-CURRENT LIABILITIES			
Long-term borrowings	9	43,575	3,196
Deferred tax liabilities	14, 16	13,579	9,228
Other non-current liabilities		152	—
		57,306	12,424
TOTAL LIABILITIES		209,437	130,733
Minority interest		1,862	2,488
SHAREHOLDERS' EQUITY			
Share capital	10	30	2
Additional paid in capital	10	132,537	77,520
Retained Earnings		26,711	8,456
		159,278	85,978
TOTAL EQUITY AND LIABILITIES		370,577	219,199

A Kosiyanenko
General Director
31 March 2005

V Podolsky
Chief Financial Officer
31 March 2005

The accompanying notes on pages 155 to 172 are an integral part of these consolidated financial statements

PEREKRESTOK HOLDINGS LTD
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	Year ended 31 December 2004	Year ended 31 December 2003
SALES		660,047	373,402
COST OF GOODS SOLD		(481,284)	(270,524)
GROSS PROFIT		178,763	102,878
Operating expenses	11	(158,227)	(93,615)
Lease/sublease income		9,710	4,081
OPERATING PROFIT		30,246	13,344
Finance costs	12	(7,696)	(2,951)
Net foreign exchange gain		6,108	1,899
PROFIT BEFORE TAX		28,658	12,292
INCOME TAX EXPENSE	14	(11,672)	(3,816)
PROFIT AFTER TAX AND BEFORE MINORITY INTEREST		16,986	8,476
Minority interest	3	(139)	(57)
NET PROFIT		16,847	8,419

A Kosiyenko
General Director
31 March 2005

V Podolsky
Chief Financial Officer
31 March 2005

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PEREKRESTOK HOLDINGS LTD
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	Number of shares	Share capital	Additional paid in capital	Retained earnings/ (deficit)	Total shareholders' equity
Balance as at 1 January 2003		12,222	2	48,055	(318)	47,739
Ordinary shares issue, net of transaction costs of USD 875.		2,222	0	24,125	—	24,125
Translation movement		—	—	5,340	355	5,695
Net profit for the year		—	—	—	8,419	8,419
Balance as at 31 December 2003		14,444	2	77,520	8,456	85,978
Share capital split	10	1,429,956	—	—	—	—
Ordinary shares issue	10	111,108	28	49,972	—	50,000
Translation movement		—	—	5,045	1,408	6,453
Net profit for the year		—	—	—	16,847	16,847
Balance as at 31 December 2004		1,555,508	30	132,537	26,711	159,278

A Kosiyenko
General Director
31 March 2005

V Podolsky
Chief Financial Officer
31 March 2005

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PEREKRESTOK HOLDINGS LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR END 31 DECEMBER 2004
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

	Note	Year ended 31 December 2004	Year ended 31 December 2003
Profit before tax		28,658	12,292
Adjustments for:			
Depreciation and amortisation	6, 7	16,648	10,063
Loss on disposal of property, plant and equipment		17	144
Inventory shrinkage	11	6,372	2,497
Finance costs	12	7,696	2,951
Foreign exchange effects on non working capital balances		(1,536)	(2,065)
Net cash from operating activities before changes in working capital		57,855	25,882
Increase in VAT recoverable		(11,751)	(8,446)
(Increase)/decrease in trade and other accounts receivable		(5,857)	9,493
Increase in inventories		(23,411)	(18,301)
Increase in trade accounts payable		26,424	19,882
Increase in other accounts payable		10,590	6,700
Cash provided from operations		53,850	35,210
Interest paid		(6,185)	(2,953)
Administrative charges paid for loans received		(3,257)	—
Interest received		82	41
Income tax paid		(8,004)	(3,151)
Net cash from operating activities		36,486	29,147
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(74,402)	(41,248)
Proceeds from sales of property, plant and equipment		1,382	—
Acquisition of subsidiaries	3	(13,547)	(11,748)
Acquisition of investments available for sale		(21,200)	(2,108)
Proceeds from sale of investments available for sale		21,701	445
Purchase of intangible assets	7	(110)	(4)
Cash acquired on consolidation of subsidiaries	3	56	468
Net cash used in investing activities		(86,120)	(54,195)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loans		87,828	63,400
Repayment of short-term loans		(105,530)	(35,465)
Proceeds from long-term loans		75,000	1,103
Repayment of long-term loans		(22,036)	(19,224)
Contribution from shareholders	10	50,000	24,125
Net cash used in financing activities		85,262	33,939
NET INCREASE IN CASH AND CASH EQUIVALENTS		35,628	8,891
MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year		16,990	8,099
Increase		35,628	8,891
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	52,618	16,990

A Kosiyanenکو
General Director
31 March 2005

V Podolsky
Chief Financial Officer
31 March 2005

The accompanying notes on pages 155 to 172 are an integral part of these consolidated financial statements

PEREKRESTOK HOLDINGS LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

1. PRINCIPAL ACTIVITIES AND GROUP STRUCTURE

The main activity of the Perekrestok Group is the development and operation of grocery retail stores within the Russian Federation. At 31 December 2004 the Perekrestok Group operated 90 stores (2003: 64), in Moscow, Moscow Region and other major population centers in Russia, including but not limited to St. Petersburg, Nizhniy Novgorod, Krasnodar and Samara.

The parent company of the Perekrestok Group, Perekrestok Holdings Limited (“Perekrestok”) was registered at 28 Irish Town, Gibraltar in 2001. Perekrestok is a member of the Alfa Group. As of 31 December 2004, the immediate and ultimate parent company is CTF Holdings Limited, a company registered at Suite 2, 4 Irish Place, Gibraltar and the parent entity of the Alfa Group.

The Perekrestok Group principal entities are as follows:

Company	Country	Nature of operations	Ownership (%)	
			2004	2003
ZAO “TH Perekriostok”	Russia	Retailing	100	100
OOO “Perekriostok-2000”	Russia	Retailing	100	100
OOO “Discount-Invest”	Russia	Retailing	100	100
OOO “Retailtorg NK”	Russia	Real estate	100	100
ZAO “STD Holding”	Russia	Real estate	100	100
ZAO “TK Zevs – T”	Russia	Real estate	100	100
Rathmine Holdings Ltd.	Cyprus	Holding Company	86	68
ZAO “Loximer”	Russia	Retailing	100	—
OOO “MSKB”	Russia	Retailing	100	—
ZAO “Credo-Estate”	Russia	Real estate	100	100
OOO “Sladkaya Zhizn N.N.”	Russia	Retailing	86	68

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”). Perekrestok Group companies maintain their accounting records in Russian Rouble (“RR”) and prepare their statutory financial statements in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting adopted by the decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 N 34n. The consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Entities that are registered under the legislation of countries outside of the Russian Federation maintain financial statements which are based on IFRS principles.

Management Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reporting amounts of assets and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to realisability and depreciable lives of property, plant and equipment, allowances for bad, doubtful accounts and obsolete inventory, fair values of financial instruments and deferred taxation. Actual results could differ from the estimates.

PEREKRESTOK HOLDINGS LTD

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004
(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)**

2.2 Accounting for the effects of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 (“Financial Reporting in Hyperinflationary Economies”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Perekrestok Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

2.3 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Perekrestok Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Perekrestok Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used for the acquisition of subsidiaries by the Perekrestok Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. With effect from adoption date of IFRS 3 March 31 2004, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Perekrestok Group’s share of the identifiable net assets acquired is recorded as goodwill. See Note 2.8 for the accounting policy on goodwill.

Inter-company transactions, balances and unrealised gains and losses on the transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Perekrestok Group.

2.4 Minority interest

Minority interest at the balance sheet date represents the minority shareholders’ portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities’ portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders’ equity. Where the losses applicable to the minority in a consolidated subsidiary exceed the minority interest in the equity of the subsidiary, the excess and any further losses applicable to the minority are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make restitution for the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority’s share of losses previously absorbed by the majority has been recovered.

2.5 Foreign currency translation and transactions

(a) Functional and presentation currency

Items included in the financial statements of each of the Perekrestok Group’s entities are measured using the currency of primary economic environment in which the Perekrestok Group operates (the “**functional currency**”). The Perekrestok Group uses the RR as the functional currency. These consolidated financial

PEREKRESTOK HOLDINGS LTD

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004
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statements have been presented in US dollars (“presentation currency”). The translation from the measurement currency to the presentation currency was performed in accordance with Standing Interpretations Committee SIC 30 “Reporting Currency – Translation from Measurement Currency to Presentation Currency”.

Translation of results and financial position from functional currency to presentation currency is done as follows:

- (i) assets and liabilities for each balance sheet date presented are translated at the closing rate at the date that balance sheet;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in equity

(b) Transactions and balances

Monetary assets and liabilities, which are held by Perekrestok Group entities and denominated in foreign currencies at 31 December 2004, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of operations.

At 31 December 2004, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 27.7487 (2003: USD 1 = RR 29.4545). Average rate for 2004 was USD 1 = RR28.8080.

Exchange restrictions and controls exist relating to converting the RR into other currencies. The RR is not a convertible currency outside of the Russian Federation and the Commonwealth of Independent States (CIS).

2.6 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Perekrestok Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

2.7 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Perekrestok Group and the cost of the item can be measured reliably.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

Buildings	4% per annum
Machinery and equipment	15% per annum
Computer equipment	25% per annum
Office equipment	20% per annum
Furniture and fixtures	14% per annum

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in the statement of income as incurred.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Perekrestok Group's share of the net assets of the acquired subsidiaries/associates at the date of acquisition. Subsequent to acquisition of control the goodwill is determined based on carrying value of the consolidated net assets at transaction date. Goodwill on the acquisition of subsidiary undertakings is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill recognized prior to 31 March 2004 is amortised using the straight-line method over its estimated useful life of five years. Amortisation is charged to the income statement. Goodwill recognized later than 31 March 2004 is not amortised.

The Perekrestok Group applies the transitional rules of IFRS 3 "Business combinations" in respect of goodwill arising from business combinations for which the agreement date was before 31 March 2004. Consequently, beginning 1 January 2005, previously recognized goodwill will no longer be amortized and will be tested for impairment in accordance with IAS 36 "Impairment of assets".

Goodwill is carried at cost less accumulated amortisation. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

(b) Other intangible assets (finite life)

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives that is on average 10 years.

(c) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

2.9 Borrowings

Borrowings are recognised initially at cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the

PEREKRESTOK HOLDINGS LTD

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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redemption amount is recognised as interest expense over the period of the borrowings. Interest costs on borrowings specifically related to financing the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Perekrestok Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Accounting for leases where the Group is the lessee

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.11 Accounting for leases where the Group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised in the income statement on a straight-line basis over the lease term.

2.12 Inventories of goods for resale

Inventories at warehouses and retail outlets are stated at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

2.13 Cash

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.14 Provisions

Provisions are recognised when the Perekrestok Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation could be made.

2.15 Pension costs

The Perekrestok Group's entities contribute to the Russian Federation's state pension fund in respect of its employees. These contributions are expensed as incurred. The Perekrestok Group's commitment ends with the payment of these contributions.

2.16 Income taxes

Income taxes payable are provided for on the basis of estimates of the tax liability for the year, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible

PEREKRESTOK HOLDINGS LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)

temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the balance sheet date.

Management reviews the Perekrestok Group's compliance with applicable tax legislation, laws and decrees, current interpretations published by the authorities and administrative practice.

Management makes provision in the consolidated financial statements for all estimated tax liabilities (note 16).

2.17 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

2.18 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. The following are the principal types of income and expenses and how they are recognised:

- Sales are determined by reference to the sales price of the goods delivered during the year. Revenue from the sale of goods through retail outlets is recognized at the point of sale, net of value added tax, sales tax (in 2003) and discounts. Revenue from leasing premises as well as from wholesale activities is recognised when premises are provided and goods are shipped and the buyer accepts delivery. Rent payments received in advance for the leasing of space are recorded as deferred revenue on the balance sheet;
- Cost of goods sold comprises the purchase price of goods sold;
- Interest income and expense are recognised on an effective yield basis; and
- Operating expenses are recognised on an accrual basis as incurred.

2.19 Shareholders' equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

2.20 Investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance

PEREKRESTOK HOLDINGS LTD

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sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the settlement date, which is the date when the investment is delivered to or by the Perekrestok Group. Cost of purchase includes transaction costs. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the statement of income in the period in which they arise.

2.21 Early adoption of IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2003) and IAS 39 “Financial Instruments: Recognition and Measurement” (revised 2003).

Prior to 1 January 2004 foreign currency forwards, which are embedded into rental contracts denominated in foreign currency, were separated from the host contract and accounted for as derivatives. As at 1 January 2004 Perekrestok implemented the early adoption of IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2003) and IAS 39 “Financial Instruments: Recognition and Measurement” (revised 2003). As a result foreign currency forwards which are embedded in rental and construction contracts denominated in US Dollars are no longer separated from the host contracts. There was no impact on opening retained earnings and current year operations from the adoption of IAS 32 and IAS 39.

3. ACQUISITION OF SUBSIDIARIES

Rathmine Holdings Limited

In September 2003 the Perekrestok Group acquired 68.38 per cent. of the voting shares of Rathmine Holdings Limited for USD 11,748. Rathmine Holdings Limited is the parent company of the SPAR Middle Volga group which consisted of three Russian legal entities – ZAO SPAR Middle Volga, OOO SPAR Middle Volga and OOO Sladkaya Zhizn NN, and whose main activity is the development and operation of retail grocery stores within the Russian Federation. At 31 December 2003 SPAR Middle Volga group operated 7 stores in the city of Nizhny Novgorod.

During 2003 the Perekrestok Group also signed a put-call option agreement relating to the acquisition of 30 per cent. of the voting shares of Rathmine Holdings Limited. Under the terms of this agreement the Perekrestok Group has a call option to purchase the additional shares at a minimum price of USD 1.159 per share. However, the final price will depend upon the revenue, EBITDA and financial debt of Rathmine Holdings Limited at the time the Call option is exercised. The Call option can be exercised at any time between 1 June 2004 and 1 January 2008 or upon the occurrence of an Accelerated Call Event on or after 1 June 2004. The Accelerated Call Event is the dismissal of the existing general director of OOO Sladkaya Zhizn.

The vendor has a Put option based on the same pricing as the Call option. Unless an Accelerated Put Event has occurred, the Put Option is exercisable by the Seller in accordance with the following timetable:

1 January 2004 onwards:	876 shares;
1 January 2005 onwards:	a further 876 shares;
1 January 2006 onwards:	a further 876 shares; and
1 January 2007 onwards:	a further 1,752 shares.

If an Accelerated Put Event has occurred at any time after 1 June 2004, the Put Option shall be exercisable by the Seller in relation to all the related shares. Each of the following events constitutes the occurrence of the Accelerated Put Event:

- Existing General Director of OOO Sladkaya Zhizn NN ceases to serve as general director;
- A sale of shares by the Perekrestok Group to a third party at any time before 1 January 2007;

At 31 December 2004 no Accelerated Put Event has occurred.

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During 2004 the Perekrestok Group acquired an additional 17.12 per cent. of the voting rights of Rathmine Holdings Limited. The acquisitions were made as follows:

	Consideration paid	Net assets acquired	Share of voting rights acquired	Goodwill recognized
15 January 2004	301	141	1.77%	160
22 March 2004	1,301	706	5.69%	595
29 March 2004	1,015	603	4.83%	412
30 September 2004	1,563	650	4.83%	913
			17.12%	2,080

At 22 March 2004 Rathmine Holdings Limited increased its share capital by 3,453 voting shares and the whole of the additional share issuance was acquired by the Perekrestok Group for USD 4,000, that represent net assets acquisition of USD 706 from minority shareholders for consideration of USD 1,301.

In March 2005 the Perekrestok Group acquired an additional 4.83 per cent. of the voting shares. The acquisition price consisted of fixed and variable components. The fixed part amounts to USD 1,697. The variable part is to be determined based on audited Rathmine Holdings Limited consolidated results of operations for the fourth quarter 2004 and the financial position of Rathmine Holdings Limited as at 31 December 2004. As at the date of these consolidated financial statements, the audited financial results of Rathmine Holdings Limited are not available, Management have estimated the variable part of the acquisition price in the amount of USD 200.

OOO MSKB

In June 2004 the Perekrestok Group acquired 100 per cent. of the voting shares of OOO MSKB for USD 4,216. MSKB operates one retail grocery store in Moscow. The Perekrestok Group has recognized goodwill in the amount of USD 2,280. The fair values of assets and liabilities at acquisition date were USD 2,627 and USD 691, respectively. Only the building, representing 96 per cent. of fair value at the date of acquisition, was valued by an independent appraiser. Other fair values (machinery and equipment) represent management's best estimates based on currently available information.

Details of assets and liabilities acquired and goodwill recognized are as follows:

	Acquiree's carrying amount	Fair value
Cash	24	24
Trade and other accounts receivables	73	73
Inventories of goods for resale	110	110
Other assets	54	—
Property, plant and equipment	271	2,420
Trade accounts payable	(176)	(176)
Other liabilities	(8)	(8)
Non-current liabilities	(2)	(507)
Net assets acquired	346	1,936
Goodwill		2,280
Total acquisition cost		4,216
Less:		
Cash and cash equivalents acquired		(24)
Cash outflow on acquisition		4,192

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The goodwill is attributable to the location of the property acquired and synergies expected to arise after the Perekrestok Group's acquisition of OOO MSKB. The consolidated financial statements include USD 292 of net profit of OOO MSKB generated since the acquisition date.

ZAO Loximer

In December 2004 the Perekrestok Group acquired 100 per cent. of the voting shares of ZAO Loximer for USD 6,900. Loximer operates four retail grocery stores (2 owned and 2 rented) in Yaroslavl city, Russian Federation. The Perekrestok Group has recognized goodwill in the amount of USD 5,450. The fair values of assets and liabilities at the acquisition date were USD 4,200 and USD 2,750, respectively. Only the building, representing 81 per cent. of the fair value of assets at the date of acquisition, was valued by an independent appraiser. Other fair values (machinery and equipment) represent management's best estimates based on currently available information.

Details of assets and liabilities acquired and goodwill recognized are as follows:

	Acquiree's carrying amount	Fair value
Cash	32	32
Trade and other accounts receivables	27	27
Inventories of goods for resale	593	593
Property, plant and equipment	1,870	3,548
Trade accounts payable	(1,870)	(1,870)
Other liabilities	(412)	(412)
Non-current liabilities	—	(468)
Fair value of net assets acquired	240	1,450
Goodwill		5,450
Total acquisition cost		6,900
Less:		
Cash and cash equivalents in subsidiary acquired		(32)
Cash outflow on acquisition		6,868

The goodwill is attributable to the location of the property acquired and synergies expected to arise after the Perekrestok Group's acquisition of ZAO Loximer. The consolidated financial statements include USD 7 of net profit of ZAO Loximer generated since the acquisition date.

4. RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the relationships for those with whom the Perekrestok Group entered into significant transactions or had significant balances outstanding at 31 December 2004 are detailed below.

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Alfa Group

The following transactions were carried out with members of Alfa Group:

	31 December 2004	31 December 2003
<i>CTF Holdings Ltd</i>		
Capital contributions received (Note 10)	41,141	10,000
Management services received	781	794
<i>VimpelCom</i>		
Communication services rendered by VimpelCom to the Perekrestok Group	343	181
Informational services rendered by the Perekrestok Group to VimpelCom	334	—

The consolidated financial statements include the following balances with other members of the Alfa Group:

	31 December 2004	31 December 2003
Cash and cash equivalents		
OA0 “Alfa Bank”	4,601	8,770
Short-term loans		
OA0 “Alfa Bank”	4,872	31,550
Receivable from related party		
GUM Holdings Ltd	—	167
VimpelCom	7	—
<i>Other accounts payable</i>		
Purchase of Credo-Estate from Alfa-Bank	—	6,100
VimpelCom	305	4

Perekrestok receives retail-banking services at normal market rates from Alfa Bank, a member of the Alfa Group, with which it holds current accounts and term deposit balances.

Company’s management

	31 December 2004	31 December 2003
Capital contributions received (Note 10)	8,859	—

OOO Firma Sladkaya Zhizn

OOO Firma Sladkaya Zhizn is one of the significant suppliers of goods for resale and it is affiliated with one of the minority shareholders, who also is member of the senior management of the Perekrestok Group.

The following transactions were carried out with OOO Firma Sladkaya Zhizn:

	31 December 2004	31 December 2003
Purchases of goods for resale	4,711	21,229
Services rendered to the Group	—	2
Services rendered by the Group to OOO Firma Sladkaya Zhizn	142	636

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The consolidated financial statements include the following balances with OOO Firma Sladkaya Zhizn:

	31 December 2004	31 December 2003
Receivable from related party	61	186
Trade accounts payable	742	1,511

The Group purchases goods and receives services from OOO Firma Sladkaya Zhizn at normal market rates.

Directors' compensation

Directors' compensation is disclosed in Note 13.

5. CASH

	31 December 2004	31 December 2003
Cash in hand – Roubles	1,376	606
Bank current account – Roubles	9,006	8,861
Hard currency bank accounts	31,822	1,098
Cash in transit – Roubles	10,414	6,425
	52,618	16,990

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Office equipment	Furniture and fixtures	Construction in progress	Total
Cost:						
At 1 January 2004	99,849	52,204	4,841	1,387	15,205	173,486
Additions	3,940	2,811	—	8	67,513	74,272
Transfers	32,518	21,566	1,235	557	(55,876)	—
Assets from acquisitions (Note 3)	4,007	2,039	41	10	1	6,098
Disposals	—	(1,999)	(605)	(86)	(1)	(2,691)
Translation movement	6,138	3,209	298	85	935	10,665
At 31 December 2004	146,452	79,830	5,810	1,961	27,777	261,830
Accumulated depreciation:						
At 1 January 2004	(14,040)	(17,213)	(2,287)	(543)	—	(34,083)
Charge for the year	(4,705)	(7,793)	(2,037)	(233)	—	(14,768)
Disposals	—	911	366	15	—	1,292
Translation movement	(1,043)	(1,356)	(218)	(42)	—	(2,659)
At 31 December 2004	(19,788)	(25,451)	(4,176)	(803)	—	(50,218)
Net book value at 31 December 2004	126,664	54,379	1,634	1,158	27,777	211,612
Net book value at 31 December 2003	85,809	34,991	2,554	844	15,205	139,403

Construction in progress predominantly relates to development of stores constructed through sub-contractors. No interest was capitalised in 2004 and 2003. Cost of fully depreciated items at 31 December 2004 was USD 4,137 (2003: USD 4,201).

Pledged property is disclosed in Note 9.

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7. INTANGIBLE ASSETS

Intangible assets comprise of goodwill on the acquisitions of subsidiaries (See note 3), sales licenses and purchased software licenses.

	Software and other	Goodwill	Total
Cost:			
At 1 January 2004	978	7,509	8,487
Additions	110	9,810	9,920
Translation movement	60	643	703
At 31 December 2004	1,148	17,962	19,110
Accumulated amortisation:			
At 1 January 2004	(259)	(541)	(800)
Charge for the year (amortisation of goodwill in respect to acquisitions before 1 April 2004 only)	(176)	(1,704)	(1,880)
Translation movement	(37)	(98)	(135)
At 31 December 2004	(472)	(2,343)	(2,815)
Net book value at 31 December 2004	676	15,619	16,295
Net book value at 31 December 2003	719	6,968	7,687

8. OTHER ACCOUNTS PAYABLE

	31 December 2004	31 December 2003
Taxes payable	9,756	7,348
Accrued salaries	3,233	3,607
Accrued bonuses	5,248	1,700
Payables to landlords	1,873	1,316
Payable for ZAO «Loximer» shares (see Note 3)	6,399	—
Other accounts payable and accruals	7,494	2,738
	34,003	16,709

9. BORROWINGS

	Note	Currency	Rate, % p.a.	31 December 2004	31 December 2003
Current					
Commerzbank		USD	LIBOR+4.5	10,000	—
Alfa-bank	4	RR	10-14	4,872	31,550
Sberbank		RR	11-12	2,474	—
Current portion of Syndicated Loan*		USD	LIBOR+4.3	29,254	—
Current portion of loan from EBRD		USD	LIBOR+4.3	—	21,797
Other		RR	—	72	110
				46,672	53,457
Non-current					
Syndicated loan*		USD	LIBOR+4.3	72,829	—
Less Current portion of Syndicated Loan		USD	LIBOR+4.3	(29,254)	—
Other		RR	—	—	3,196
				43,575	3,196
Total borrowings				90,247	56,653

* In 2004 the Perekrestok Group received a Syndicated Loan from a group of international banks (HSBC, Raiffeisen) in two tranches : in January 2004 – USD 25,000 and in April-May 2004 – USD 50,000. Interest rate on this borrowing is determined based on LIBOR and is calculated as LIBOR+4.3 per cent..

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Under this loan agreement the Perekrestok Group has pledged property, plant and equipment, inventory and all shares of ZAO “TH “Perekriostok”. The net book value of the property, plant and equipment, over which the security is held, is USD 91,995. Also under the pledge agreement the Perekrestok Group maintained two current accounts with cumulative turnover not less than USD 60,000.

Maturity of non-current borrowings:

	31 December 2004	31 December 2003
2005	—	3,196
2006	43,575	—
	43,575	3,196

10. SHARE CAPITAL

Based on the shareholders’ decision made in December 2004 share capital of GBP 1,444.4 consisting of 14,444 ordinary shares at 10 pence par value was split at 15 December, 2004 into 1,444,400 shares at 1 pence par value.

On 15 December 2004 111,108 ordinary shares of 1 pence par value were issued, which increased share capital by GBP 1,111.

CTF Holdings Limited subscribed for 91,468 shares issued for total consideration of USD 41,141. The difference between nominal value and cost of transaction was accounted as additional paid in capital.

Templeton Strategic Emerging Markets Fund LDC has not subscribed for any new issued shares.

Shareholders	Number of shares	Consideration paid	Par Value	Additional paid in capital
CTF	91,468	41,141	23	41,118
Templeton	—	—	—	—
Group’s management	19,640	8,859	5	8,854
	111,108	50,000	28	49,972

All authorised shares have been issued and fully paid at year end. The issued and authorised share capital is GBP 15,555, which is reported as USD 30 (2003: USD 2).

The structure of shareholding of the Perekrestok Group is as follows:

Shareholders	31 December 2004		Shares Issue		Shares Split		31 December 2003	
	Number	%	Number	%	Number	%	Number	%
CTF	1,252,968	80.55	91,468	82.32	1,149,885	80.41	11,615	80.41
Templeton	111,100	7.14	—	—	109,989	7.70	1,111	7.70
Group’s management	191,440	12.31	19,640	17.68	170,082	11.89	1,718	11.89
	1,555,508	100.00	111,108	100.00	1,429,956	100.00	14,444	100.00

No dividends were paid or declared in 2004 and 2003.

The statutory accounting reports of the Perekrestok Group’s entities are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as current year net income. For 2004, the

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aggregated statutory profit for the Perekrestok Group as reported in the published annual statutory reporting forms was USD 14,510. Management believes that the net profit of the current year and the accumulated profit of prior periods are distributable. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

11. OPERATING EXPENSES

	Note	31 December 2004	31 December 2003
Staff costs	13	68,973	42,156
Operating lease expenses		25,501	17,150
Depreciation of property, plant and equipment	6	14,768	9,385
Advertising		7,647	4,643
Utilities		6,776	2,368
Inventory shrinkage		6,372	2,497
Supplies and materials		6,136	4,319
Security costs		3,701	2,309
Taxes other than income tax		3,261	1,956
Repair and maintenance costs		2,913	1,889
Consulting and information services		2,449	1,621
Amortisation of intangible assets	7	1,880	678
Other operating expenses		7,850	2,644
		158,227	93,615

12. FINANCE COSTS

	31 December 2004	31 December 2003
Interest expense	7,696	2,951
	7,696	2,951

13. STAFF COSTS

	31 December 2004	31 December 2003
Wages and salaries	62,238	35,860
Social security costs	6,735	6,296
	68,973	42,156

Included above are amounts paid or payable to key management personnel of USD 7,456 (2003: USD 2,110 thousand) including discretionary payments of USD 5,748 (2003: USD 1,632). Compensation of key management personnel consists of the remuneration paid to 7 members of the Board of Directors and 7 members of the Executive Board for their services in full or part time positions. Compensation is made up of an annual remuneration and a performance bonus depending on operating results.

Average number of persons employed by the Perekrestok Group during the year:

	31 December 2004	31 December 2003
Permanent	8,877	6,272
Temporary	304	946
	9,181	7,218

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14. INCOME TAX

	31 December 2004	31 December 2003
Current income tax charge	9,062	3,464
Deferred income tax charge	2,610	352
Income tax charge for the period	11,672	3,816

Net profit before taxation for financial reporting purposes is reconciled to income tax expense as follows:

	31 December 2004	31 December 2003
Profit before taxation	28,658	12,292
Theoretical tax at the effective statutory rate of 24%	6,878	2,950
Tax effect of items which are not deductible or assessable for taxation purposes:		
Inventory shrinkage expenses	1,529	599
Amortization of goodwill	451	163
Other non-deductible expenses	1,260	578
Construction not recognized for tax purposes	(446)	(813)
Provision for tax contingencies (Note 16)	2,000	—
Prior Year Income Tax adjustment	—	339
Income tax charge for the year	11,672	3,816

Deferred income tax

Differences between IAS and statutory taxation and reporting regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24 per cent. in the current year.

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2004:

	31 December 2003	Movement in year	Deferred tax liability on acquisitions	Translation movement	31 December 2004
Tax effects of taxable temporary difference:					
Property, plant and equipment	(15,861)	2,178	(949)	(930)	(15,562)
	(15,861)	2,178	(949)	(930)	(15,562)
Tax effects of deductible temporary differences:					
Tax losses available for carry forward	2,038	(668)	—	101	1,471
Accounts Receivable	3,705	(3,027)	—	117	795
Other	890	(1,093)	—	(80)	(283)
	6,633	(4,788)	—	138	1,983
Total net deferred tax liability	(9,228)	(2,610)	(949)	(792)	(13,579)

The amount shown in the balance sheet include the following:

	31 December 2004	31 December 2003
Deferred tax assets to be recovered after more than 12 months	—	2,038
Deferred tax liabilities to be settled after more than 12 months	(13,425)	(13,683)

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Tax losses can generally be used to offset future taxable profits over the subsequent 10 years; the Perekrestok Group's tax losses carried forward would fully expire within 9 years from the reporting date. The maximum offset in any one year is limited to 30 per cent. of the total taxable profit of the year. The Perekrestok Group recognized deferred tax assets in relation to unused tax losses in full. Management considers that there will be sufficient taxable income to recover these losses in full (Note 16).

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2003:

	31 December 2002	Movement in year	Deferred Tax Liability recognized as a result of acquisition	Translation movement	31 December 2003
Tax effects of taxable temporary difference:					
Property, plant and equipment	(8,790)	(4,347)	(1,831)	(893)	(15,861)
	(8,790)	(4,347)	(1,831)	(893)	(15,861)
Tax effects of deductible temporary differences:					
Tax losses available for carry forward	2,565	(701)	—	174	2,038
Accounts Receivable	(21)	3,578	—	148	3,705
Other	(61)	1,118	—	(167)	890
	2,483	3,995	—	155	6,633
Total net deferred tax liability	(6,307)	(352)	(1,831)	(738)	(9,228)

15. FINANCIAL RISKS

Credit risk

Financial assets, which potentially subject Perekrestok Group entities to credit risk, consist principally of trade and other receivables. The Perekrestok Group has policies in place to ensure that sales of products and services are made to wholesales customers with an appropriate credit history. The carrying amount of third party accounts receivable represents the maximum amount exposed to credit risk. The Perekrestok Group has no other significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to Perekrestok Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

Foreign exchange risk

The Perekrestok Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk. The Perekrestok Group does not utilise financial instruments to hedge against its exposure to fluctuations in foreign exchange rates (or interest rates, see below).

The Perekrestok Group does not have formal arrangements to mitigate the foreign exchange risks of their operations. Whenever possible, the Perekrestok Group tries to mitigate the exposure by matching balance sheet, and revenue and expense items in the relevant currency.

The Perekrestok Group's income and operating cash flows are exposed to changes in market interest rates. The Perekrestok Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term and long-term borrowings. The Perekrestok Group has no significant interest-bearing assets.

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Interest rate risk

Fair values

In assessing the fair value of non-traded financial instruments the Perekrestok Group uses a variety of methods including estimated discounted value of future cash flows, and making assumptions that are based on market conditions existing at each balance sheet date.

The carrying amounts of financial assets and liabilities with a maturity of less than three months are assumed to approximate their fair values. At 31 December 2004 and 2003, the fair value of long-term borrowings was estimated by discounting the future contractual cash flows at the current market interest rate available to the Perekrestok Group for similar financial instruments. This fair value was not materially different from the carrying amount for the borrowings.

16. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At December 2004, the Perekrestok Group operated 72 stores through rented premises (2003: 40). There are two types of fees in respect of operating leases payable by the Perekrestok Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts and predominantly denominated in USD. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover.

The fair value of the future minimum lease payments under non-cancellable operating leases of property are as follows (including VAT):

	31 December 2004	31 December 2003
2005	15,961	9,072
2006	9,854	7,448
2007	9,567	6,451
2008	7,274	5,405
2009	6,257	4,573
Thereafter	20,189	14,233
	69,102	47,182

In addition to the minimum lease payments in the year ended 31 December 2004 Perekrestok made variable lease payments amounting to USD 11,629 (2003: USD 3,356).

Capital commitments

At 31 December 2004 the Perekrestok Group had contracted for USD 9,826 (2003: USD 649) of capital expenditure.

CONTINGENT LIABILITIES

Taxation environment

Russian tax legislation is subject to varying interpretation and constant changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Perekrestok Group may not coincide with that of management of the Perekrestok Group. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, transactions undertaken by the Perekrestok Group from time to time may be challenged by tax authorities and the Perekrestok Group may be assessed additional taxes, penalties and interest, which can be significant.

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(EXPRESSED IN THOUSANDS OF US DOLLARS, UNLESS OTHERWISE STATED)**

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there is scope for companies to structure transactions so as to take advantage of possibilities in the Russian tax legislation to reduce the overall effective tax rate. As part of the conversion of its financial statements to International Accounting Standards, the Perekrestok Group recorded certain transactions differently from the underlying statutory accounting and tax reports to reflect their underlying economic substance. Although there have historically been no significant liabilities arising from tax assessments on these matters, the potential for assessments remains and the result of an assessment could be material for Perekrestok.

Management regularly reviews the Perekrestok Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Perekrestok Group has operations. From time to time potential exposures are identified and at any point in time a number of open matters may exist. However, the possible range of potential exposures has not been disclosed to avoid prejudicing the Perekrestok Group's position. Management of the Perekrestok group has recorded a provision in the amount of USD 2,000 in these consolidated financial statements as their best estimate of possible tax contingencies. Management of the Perekrestok group have taken active steps to reduce the possibility of such risks in the future. Tax filings remain open to review by the Russian tax authorities for three years.

Legal proceedings

During the year, the Perekrestok Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Perekrestok Group and which have not been accrued or disclosed in these consolidated financial statements.

Operating environment of the Perekrestok Group

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently and can have a material effect on the financial position of the Perekrestok Group.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

(iv) Certain principal differences in the IFRS accounting policies of Pyaterochka and Perekrestok

The IFRS accounting policies of Pyaterochka, as adopted in preparing its consolidated financial statements as at 31 December 2005, 2004 and 2003 and for the years then ended, included elsewhere in this document, differ in certain respects from the IFRS policies that have been applied in preparing Perekrestok's consolidated financial statements as at 31 December 2005 and 2004 and for the years then ended. Such differences may not only affect the methods for measuring amounts shown in the financial statements, but also the methods of presentation and disclosure and the basis for preparing the financial statements. Details of these differences, and the impact on assets, liabilities and earnings, as well as the impact on presentation of certain line items in the financial statements, of adjusting Perekrestok's financial information to reflect the IFRS accounting policies as adopted by Pyaterochka are set out below.

The summary below has been prepared by the Directors of Pyaterochka based on the financial information provided by Perekrestok and discussions with Perekrestok's management and their accountants and should not be taken as a complete list of all differences in the application of IFRS by Perekrestok and Pyaterochka. The Directors of Pyaterochka have not attempted to assess acceptability of accounting policies adopted by Perekrestok for IFRS purposes and the differences in accounting estimates made in the process of preparation of financial statements by the two groups. The Directors of Pyaterochka can provide no assurances that the differences identified below represent all the differences between the IFRS accounting policies of Perekrestok and Pyaterochka. The summary does not attempt to identify all disclosure, presentation and classification differences that would affect the manner in which transactions or events are presented under IFRS in the financial statements of Perekrestok and Pyaterochka. Furthermore, no attempt has been made to identify future differences in the application of IFRS between Perekrestok and Pyaterochka as the result of future expected changes in IFRS accounting standards and related interpretations.

The significant differences, which have been identified by the Pyaterochka Directors, in application of IFRS by Perekrestok and Pyaterochka are summarized below. With the exception of the presentation of shrinkage losses and certain allowances received from suppliers included in net revenue by Perekrestok, the Directors believe that the effect of adjustments required to restate the consolidated financial statements of Perekrestok in line with the accounting policies used by Pyaterochka would not be material.

IFRS 2 Inventories

(1) Cost formulae applied

Pyaterochka – Cost of inventories at warehouses and retail outlets is calculated using the weighted average method.

Perekrestok – Cost of inventories is determined by the first-in, first-out (FIFO) method.

The impact of changing the cost method used is determined to be impracticable to quantify by the Directors of Pyaterochka. The Directors of Pyaterochka believe that due to high level of inventory turnover the potential impact on assets and earnings of Perekrestok would not be material. There would not be any impact on liabilities or presentation of Perekrestok consolidated financial statements.

(2) Discounts and allowances received from suppliers

Pyaterochka – Volume related discounts and allowances received from suppliers, including allowances received in the form of reimbursement of advertising expenses, are accounted for as deduction from cost of inventory and are, therefore, presented as a reduction of cost of sales in the consolidated income statements of Pyaterochka.

Perekrestok – Certain allowances received from suppliers are presented as revenue in the consolidated income statements of Perekrestok.

Changing the classification of discounts and allowances from suppliers would result in reduction of the carrying value of inventory of Perekrestok to reflect proportionate amount of suppliers' bonuses relating to unsold inventory. Earnings of Perekrestok would be adjusted to reflect the difference in the timing of recognition of suppliers' bonuses. However, the net income effect is expected to be minimal as it would result from the adjustments of the opening and closing inventory balances for each period having an offsetting effect on the cost of goods sold amounts. There would not be any impact on liabilities.

The reclassification resulting from this difference would result in a decrease of Perekrestok's revenue and decrease in its cost of goods sold in the consolidated income statement.

IAS 1 Presentation of Financial Statements

(1) Presentation of lease and sublease income

Pyaterochka – Income from the lease of the floor space in the owned stores and from sublease of the floor space in the leased stores is netted with related expenses and is included in selling, general and administrative expenses on the consolidated income statement.

Perekrestok – Income from the lease of the floor space in the owned stores and from sublease of the floor space in the leased stores is presented as a separate line item on the consolidated income statement.

The difference in lease and sublease income presentation has no impact on assets, liabilities or earnings.

(2) Presentation of inventory shrinkage loss

Pyaterochka – Inventory shrinkage loss is included in the cost of sales in the consolidated income statement.

Perekrestok – Inventory shrinkage loss is included in the operating expenses in the consolidated income statement.

There would not be any impact on assets, liabilities or earnings of Perekrestok. The reclassification will result in a decrease of Operating expenses line and an increase of Cost of goods sold line items on the consolidated income statement of Perekrestok. The reclassification will also reduce gross margin of Perekrestok.

1.3 Pro Forma Financial Information

(a) Unaudited pro forma statement of net asset of the Enlarged Group

The pro forma financial information set out below has been prepared to illustrate the effect on the unaudited consolidated net assets of the Enlarged Group as if the Perekrestok Transaction had occurred at 31 December 2005. The detailed description of the Perekrestok Transaction is provided in Part III of this document. The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group which would have been reported if the Perekrestok Transaction had occurred at 31 December 2005. The accounting treatment of the Perekrestok Transaction underlining the pro forma statement of net assets was determined based on the assumption that Pyaterochka is the acquirer. Given the nature and structure of both the Pyaterochka Transaction and the Perekrestok Transaction, Perekrestok may be considered as the acquirer for IFRS reporting purposes and, therefore, the whole transaction considered as a reverse acquisition. The respective change in accounting treatment has not been analysed and reflected in the pro forma statement of net assets.

This unaudited pro forma statement of net assets has been prepared on the basis set out in the notes below and is based on the net assets of Pyaterochka as at 31 December 2005 extracted without material adjustment from the consolidated annual financial statements as at that date.

(b) Unaudited Pro forma statement of net assets of the Enlarged Group

	Adjustments (unaudited)						Pro forma net assets of the Enlarged Group as at 31 December 2005 US\$m
	Net assets of Pyaterochka as at 31 December 2005 (Note 1) US\$m	Net assets of Perekrestok as at 31 December 2005 (Note 2) US\$m	Draw down of debt facility (Note 3) US\$m	Debt origination cost (Note 4) US\$m	Consideration and transaction costs (Note 5) US\$m	Goodwill and other intangible assets on Acquisition (Note 6) US\$m	
ASSETS							
NON-CURRENT ASSETS:							
Property plant and equipment	421.0	324.6					745.6
Long-term prepayments	7.3	4.2					11.5
Goodwill and other intangible assets	46.8	43.2				1,187.1	1,277.1
Other long-term assets	9.0	5.2					14.2
Deferred tax assets	7.0	—					7.0
	491.1	377.2	—	—	—	1,187.1	2,055.4
CURRENT ASSETS:							
Inventories	55.5	68.6					124.1
Receivables and prepayments	64.9	83.6					148.5
Cash	56.5	30.1	300.0	(7.8)	(304.1)		74.7
	176.9	182.3	300.0	(7.8)	(304.1)	—	347.3
TOTAL ASSETS	668.0	559.5	300.0	(7.8)	(304.1)	1,187.1	2,402.7
NON-CURRENT LIABILITIES:							
Long-term borrowings	220.0	144.1	300.0	(7.8)			656.3
Long-term liability for share based payments	5.4	—					5.4
Long-term obligations under finance leases	3.8	—					3.8
Deferred tax liability	16.2	16.7					32.9
Other non-current liabilities	—	0.1					0.1
	245.4	160.9	300.0	(7.8)	—	—	698.5
CURRENT LIABILITIES:							
Trade accounts payable	177.9	119.6					297.5
Short-term loans and overdrafts	6.8	52.6					59.4
Short-term obligations under finance leases	1.7	—					1.7
Other payables and accrued expenses	40.4	44.4					84.8
	226.8	216.6	—	—	—	—	443.4
TOTAL LIABILITIES	472.2	377.5	300.0	(7.8)	—	—	1,141.9
NET ASSETS	195.8	182.0	—	—	(304.1)	1,187.1	1,260.8

Notes to the unaudited pro forma statement of net assets

1. The consolidated net assets of Pyaterochka at 31 December 2005 have been extracted, without material adjustment, from the Pyaterochka consolidated financial statements as set out in Part VI, Paragraph 1.1(d)(iii) of this document, which have been prepared under the basis required by International Financial Reporting Standards (“IFRS”).
2. The net assets of Perekrestok as at 31 December 2005 have been extracted without material adjustment, from Perekrestok consolidated financial statements for the year ended 31 December 2005, prepared in accordance with IFRS as set out in Part VI, Paragraph 1.2(c)(iii) of this document. The amounts extracted were rounded to USD millions with one decimal point. Those line items that are not directly extracted from the face of the Perekrestok consolidated financial statements for the year ended 31 December 2005, shown in notes 9-14 in paragraph 1.2(c)(iii) of Part VI of this document, as well as several items that directly extract from the face of the Perekrestok consolidated balance sheet, but fall under one line item on Pyaterochka consolidated balance sheet, are derived as follows:

	US\$*000	Note	Page
Inventories of goods for resale	68,576		122
Inventories	68,576		
Trade and other accounts receivable	24,528		122
VAT and other taxes recoverable	59,084		122
Receivables and prepayments	83,612		
Loan to related party	5,250	9	122
Other long-term assets	5,250	9	
Prepaid lease	4,218	11	122
Long-term prepayments	4,218	11	
Software and other	576	12	141
Goodwill	24,153	12	141
Lease rights	18,464	12	141
Goodwill and other intangible assets	43,193	12	
Short-term borrowings	52,602	14	122
Short-term loans and overdrafts	52,602	14	
Interest accrued	702		122
Payable to related parties	2,758	9	122
Current income tax payable	5,018		122
Other accounts payable	35,917	13	122
Other payables and accrued expenses	44,395		

3. Pyaterochka has entered into a formal commitment letter with a number of banks to obtain a credit facility to fund the acquisition of Perekrestok. The availability of such funding is subject to further conditions, as described in Part X of this document. US\$450.0 million of this new facility will be drawn down as a result of the Perekrestok Transaction of which US\$300.0 million will be used to finance the cash consideration for the Perekrestok Transaction, and US\$150.0 million will be used for refinancing existing Perekrestok debt. The US\$450.0 million of the new facility represents Tranche A of the arranged debt facility totaling US\$800.0 million. Tranche B of this facility (US\$350.0 million) will be used gradually for ongoing capital expenditures and as well as US\$150.0 million from Tranche A referred to above are not included as an adjustment in the pro forma financial information.

If Pyaterochka is not able to obtain drawdown of the funds prior to closing of the Perekrestok Transaction, it will issue the Loan Notes to the Perekrestok Sellers for a corresponding amount of US\$300.0 million on or before the closing. See paragraph 1.1(f) of Part X of this document for a description of the Loan Notes. In preparing the unaudited pro forma statement of net assets it is assumed that Pyaterochka will be able to obtain the credit facility prior to closing of the Perekrestok Transaction.

4. The credit facility arrangement fee is estimated at US\$7.8 million. The final amount of the fee may differ from this estimate.

5. Of the total consideration of US\$1,369.1 million, which includes transaction costs of approximately US\$4.1 million, US\$300.0 million is funded by the loan facility and US\$1,065.0 million is to be settled by the issue of New Pyaterochka Shares or GDRs of Pyaterochka. The US\$1,065.0 million consideration was calculated based on the Company's average closing GDR price of US\$16.83 during the 30 trading days prior to 5 April 2006, the last trading day prior to announcement of the Perekrestok Transaction. Transaction costs of approximately US\$4.1 million comprise legal fees and advisors fees relating to the issuance of New Pyaterochka Shares or GDRs.
6. An adjustment has been made in order to reflect pro forma goodwill and other intangible assets of US\$1,187.1 million arising on the acquisition of Perekrestok, calculated on the basis of the total consideration and transaction costs of US\$1,369.1 million less the net assets of Perekrestok of US\$182.0 million at 31 December 2005.
7. No account has been taken of any trading or transactions of Pyaterochka or Perekrestok since 31 December 2005. Therefore, the unaudited pro forma statement of net assets does not reflect the effect of the subsequent acquisition of equity stakes in LLC Ural-Agro-Torg and LLC Leto companies in January 2006; arranging two loan facilities for 1 billion Russian Rubles (approximately US\$34.7 million as at 31 December 2005) each with Promyshlenno-Stroitelny Bank and Raiffeizenbank in April and March 2006, respectively; the sale of LLC Ekonomtorg in March 2006 and the acquisition of «Set Roznichnoi trgovli» discounters network in March 2006. All these transactions are disclosed in Part VI of this document.
8. No account has been taken of any fair value adjustments which may arise on the acquisition of Perekrestok.
9. No account has been taken of the call option given by the owners of Pyaterochka Group to Pyaterochka to buy out their hypermarket business in 2008.

PART VII. MANAGEMENT

Pyaterochka's management structure consists of the Board of Supervisory Directors, the Management Board and certain executive officers. There are no family relationships between any of Pyaterochka's management.

1.1 Board of Supervisory Directors

Pursuant to the Articles, the Board of Supervisory Directors is responsible for the supervision and advising of the Management Board, which in its turn is responsible for Pyaterochka's overall management. The Board of Supervisory Directors meets at least four times per year. The Board of Supervisory Directors currently consists of five members. The names of the current members, together with their respective age, position, present principal occupations and qualifications are set out below. The business address of each of the members of the Board of Supervisory Directors is Rokin 55, 1012 KK Amsterdam, the Netherlands.

All members of the Board of Supervisory Directors, except David Noble, hold interests in major shareholders in the Company. Those major shareholders are also parties to the Pyaterochka Transaction. As the Pyaterochka Transaction and the Perekrestok Transaction are inter-conditional, these members of the Board of Supervisory Directors have conflicts of interest with the Company in relation to the Perekrestok Transaction. As a result, the Board of Supervisory Directors has instituted procedures to ensure that decisions relating to the Perekrestok Transaction are taken by Mr Noble. HSBC has also provided a fairness opinion to the Board of Supervisory Directors of Pyaterochka relating to the Perekrestok Transaction.

Mr. David Noble (42), the Chairman of the Board of Supervisory Directors, is a former director at British grocery retailer Somerfield plc. In 2001, he was engaged by the EBRD as an industry expert and later that year joined the Board of Supervisory Directors as a non-executive member. Mr. Noble has been involved in the food industry for over 15 years. In 1998 to 1999, he worked at Supermarket Direct and as Joint Managing Director was involved in the sale of the business to Somerfield plc. At Somerfield plc (1999 to 2000) Mr. Noble was a director and member of the Board of Somerfield Direct Ltd. and was responsible for operations and integration of the home delivery business. From 1995 to 1998, Mr. Noble was Finance Director of GoFoods Ltd, a distributor of food products. From 1993 to 1994, Mr. Noble was Managing Director of Wonderfoods Ltd, one of the largest distributors of food products in Nigeria. Mr. Noble holds an MBA from Cranfield School of Management (1995). Mr. Noble is also a non-executive director of Morleys of Bicester Ltd, Altergraphics Ltd and Stankerr Estates Ltd.

Mr. Andrei Rogachev (42) is a co-founder and the principal of the business. Mr. Rogachev received his first degree from Meteorology Institute of St. Petersburg (1986). He also graduated from St. Petersburg Technical University with a major in finance (1996) and received a PhD from St. Petersburg State University of Economics and Finance (1997). Mr. Rogachev started his career in 1989 as an environmental researcher and he later set up and ran a small enterprise specialising in the design and production of environmental surveying equipment. In 1991, he moved into computer wholesaling and headed the Russian Computer Exchange. From 1992 to 1997, he worked in financial services in such areas as currency trading, investment projects in wholesale food supply and property development. He held the position of Deputy Chairman of Stema Bank from 1993 to 1996 and served as a co-ordinator of the Banking Confederation. Mr. Rogachev joined the Pyaterochka Group in 1998.

Mr. Alexander Girda (45) is another co-founder of the business. A graduate of Riga Institute of Civil Aviation Engineers (1983), Mr. Girda has a background in civil aviation and industry. Since 1992, he has been Director General of LEK Trading House, a major importer and wholesale supplier of dairy products. Mr. Girda joined the Pyaterochka Group in 1998.

Ms. Tatyana Franous (48) is a graduate of St. Petersburg State University with a degree in mathematics. Her career has included senior finance positions with a German trading company. She has a finance degree from St. Petersburg State University of Economics and Finance. Prior to joining the Pyaterochka Group in 1998, Ms. Franous was head of finance at United Food Company, a wholesaler and distributor of canned food products.

Mr. Igor Vidiaev (44) has been with Pyaterochka since 1998 as Chief Operating Officer and later as Chief Executive Officer. Formerly a senior officer in the Russian navy, he has held senior positions in the banking and finance industries. Prior to joining Pyaterochka, Mr. Vidiaev was Senior Vice President of LEK Estate, a property developer in St. Petersburg. Mr. Vidiaev holds a degree in economics from St. Petersburg Technical University (1996) and a PhD in economics from St. Petersburg State University of Economics and Finance (1997).

It is intended that conditional upon closing of the Perekrestok Transaction, Mr. Alexander Girda and Mr. Igor Vidiaev will leave the Board of Supervisory Directors at the Extraordinary General Meeting on 12 May 2006. The following candidates have been nominated by the Board of Supervisory Directors for appointment to the Board of Supervisory Directors (conditional upon closing of the Perekrestok Transaction) at the Extraordinary General Meeting:

- (a) **Mr. Alexander Kosiyanenko**, (42) From 1989 until 1993 Mr. Kosiyanenko worked for the Real Estate Operations Department of Bank Menatep in the position of Deputy Department Manager. From 1993 to 1994 Mr. Kosiyanenko served as Chairman of the board of directors of the Joint-Stock Commercial Bank Moskva-Centre. In 1994 Mr. Kosiyanenko helped to found Perekrestok and since that time has served as Chief Executive Officer, responsible for the overall strategy and development of Perekrestok. Today, Perekrestok is one of the largest supermarket chains and one of the leading retail operators in Russia. Mr. Kosiyanenko graduated from the Moscow State Institute of Steel and Alloys, Ferrous Metals Department in 1986. He has also participated in professional training in France in the area of retail trade administration. Mr. Kosiyanenko is a member of the Supervisory Board of Alfa Group. Mr Kosiyanenko is recommended to be appointed to the Board of Supervisory Directors due to his extensive knowledge of developing and operating retail business in Russia and the CIS. Mr Kosiyanenko will have a beneficial interest in 1,835,069 Pyaterochka Shares after completion of the Perekrestok Transaction and Pyaterochka Transaction and is a representative of Alfa Group; or alternatively,

Mr. Franz Wolf, (52) is a director of CTF Holdings, the ultimate holding company of the Alfa Group since 1998. As member of the board of CTF, Perekrestok and of various other companies within the Alfa Group he has gained substantial experience in managing and supervising the activities of companies, including those of the Perekrestok Group. Mr Wolf is a graduate of the Academy of State and Legal Sciences (Potsdam, Germany). Mr Wolf is recommended to be appointed to the Board of Supervisory Directors because of his substantial experience as a director of a number of rapidly developing businesses in Russia. He has no shareholding in the Company and is a representative of Alfa Group.

- (b) **Mr. Mikhail Fridman**, (42) is the Chairman of the Supervisory Board of Alfa Group and principal founder of the Alfa Group consortium. Mr Fridman also serves as the Chairman of the board of directors of Alfa Bank and TNK-BP and is a member of the board of directors of VimpleCom and Supervisory Board of Directors of the Perekrestok Group. He is also a member of the International Advisory Board of the Council on Foreign Relations (USA). Mr Fridman is one of Russia's most respected and influential business leaders. Mr Fridman is a graduate of the Moscow Institute of Steel and Alloys. Mr Fridman is recommended to be appointed to the Board of Supervisory Directors due to his extensive experience in building and development businesses in Russia and the CIS, including experience gained as a shareholder and member of the Supervisory Board of Directors of the Perekrestok Group. Mr Fridman currently has a beneficial interest in 1,114,536 Pyaterochka Shares and will have a beneficial interest in 11,831,581 Pyaterochka Shares after completion of the Perekrestok Transaction and the Pyaterochka Transaction and is a representative of Alfa Group; or alternatively,

Ms. Alla Kudryavtseva, (49) is the finance director of CTF, the ultimate holding company of the Alfa Group. Ms. Kudryatseva is a graduate of the Moscow power engineering institute and received Ph.D. in Heat Engineering. She is also an accounting graduate and is a qualified Certified Accountant and a member of the Chartered Association of Certified Accountants (ACCA). Before taking the position as finance director of CTF Holdings in 2000, she had 5 years auditing experience with PricewaterhouseCoopers in Moscow. Ms. Kudryatseva is recommended to be appointed to the Board of Supervisory Directors due to her strong financial expertise and experience as a director of a major company with extensive businesses in Russia. She has no shareholding in the Company and is a representative of Alfa Group.

- (c) **Mr. Nigel Robinson**, (38) is the director of Corporate Development, Finance and Control of Alfa Group. His responsibilities include co-ordinating the financial control and reporting of the Alfa Group companies and corporate governance of the Alfa Group as a whole, as well as control of the ultimate holding company of Alfa Group, CTF. Mr Robinson is also a member of the Supervisory Board of Alfa Group and a member of the board of directors and audit committees of a number of Alfa Group companies. Prior to joining Alfa Group Mr Robinson was a senior manager in PricewaterhouseCoopers in the audit and business advisory group in Moscow and St Petersburg. Mr Robinson is British qualified chartered accountant and a member of the Institute of Chartered Accountants in England and Wales. He graduated from the Accounting faculty of Norwich City Institute in the UK. Mr Robinson is recommended to be appointed to the Board of Supervisory Directors because of his strong financial qualifications and experience, as well as extensive experience serving on the boards and Audit Committees of companies operating in Russia. Mr Robinson holds no shares in the Company and is a representative of the Alfa Group; or alternatively,

Mr. Leonid Reznikovich, (38) is the CEO of Altimo, Alfa Group's telecommunications arm and a member of the Supervisory Board of Alfa Group. Prior to this Mr Reznikovich worked as the Director of Group Portfolio Management and Control of Alfa Group, where he was responsible for management audit as well as the application and control over fulfilment of strategic recommendations for all companies in the Group. Mr Reznikovich is also a member of the Supervisory Board of Directors of the Perekrestok Group. From 1993 to 2000, Mr Reznikovich worked in McKinsey & Co. He left McKinsey as a partner in 2000 and together with his partners, establish a new company, EMAX, which develops internet centres in Russia. Mr Reznikovich is a graduate of the Moscow State University, Economics Faculty and received his MBA from both Georgetown University (USA) and INSEAD (France) in 1993. Mr Reznikovich is recommended to be appointed to the Supervisory Board due to his strong mix of both consulting and business development expertise as well as strong management experience as CEO of one of Russia's largest private telecom investors. Mr Reznikovich will have a beneficial interest in 541,200 Pyaterochka Shares after completion of the Perekrestok Transaction and Pyaterochka Transaction and is a representative of Alfa Group.

- (d) **Mr. Alexander Savin**, (36) is the Managing Director of A1 Group subholding and a member of the Supervisory Board of Alfa Group. Prior to joining Alfa Group, Mr Savin supervised direct investments, specifically in the energy sector, at Renaissance Capital Group. He was on the boards of directors in Mosenergo and Kuzbassenergo. From 1992 to 2001, he worked in the consulting firm Bain in Moscow, London and Boston (strategic consulting on direct investments). Mr Savin graduated from the Moscow State University and the Harvard Business School. Mr Savin is recommended to be appointed to the Board of Supervisory Directors due to the mix of his strong consulting experience and extensive investment and management experience in Russian and CIS companies. He has no shareholding in the Company and is a representative of Alfa Group; or alternatively,

Ms. Olga Manuylova, (33) is the Head of Project Management Team, Corporate Development Finance and Control, Alfa Group. In this position Ms. Manuylova directs the project team of the Alfa Group's corporate centre responsible for overseeing the financial control, financial reporting and internal audit functions of the Alfa Group's companies. Ms. Manuylova graduated from the State Academy of Management (International Economic Relations Department) Moscow, Russia and also was qualified as a Certified Chartered Accountant in 1997 (Association of Certified Chartered Accountants (U.K.) (ACCA). Prior to joining Alfa Group Ms. Manuylova worked as a Manager in the Audit and Business Advisory Services Group in PricewaterhouseCoopers, Moscow (1994-2001). Ms. Manuylova is recommended to be appointed to the Board of Supervisory Directors due to her strong financial expertise and experience as a member of Audit Committees of a number of companies of the Alfa Group. She has no shareholding in the Company and is a representative of Alfa Group.

- (e) **Mr. David Gould**, (37) born in the United States, David Gould received a BA in Liberal Arts from Colgate University in 1991 and an MBA-MS in Accounting from Northeastern University in 1992. He qualified as a Certified Public Accountant (CPA) in 1993 and as a Chartered Financial Analyst (CFA) in 1999. He was employed by PricewaterhouseCoopers in the United States and in Moscow from 1992 through 2000 (last position - Senior Manager). Since 2000 he has served as Deputy Director of Corporate Development, Finance & Control at CTF Holdings Ltd, Alfa Group's ultimate holding company and Corporate Centre. In addition he is a member of the board of directors of Alfa Finance Holdings SA and of the Supervisory Board of Directors of the Perekrestok Group, Chairman of the Audit Committee of the Perekrestok Group and a member of the Audit Committee of Alfa Finance Holdings SA. Mr Gould is recommended to be appointed to the Board of Supervisory Directors because of his strong financial qualifications and experience as well as experience on the boards and audit committees of a number of developing Russian businesses. Mr. Gould has no shareholding in the Company and is a representative of Alfa Group; or alternatively,

Mr. Frank Dell, (60) is President and CEO of Dellmart & Company Inc and serves as an independent director on the Supervisory Board of Directors of the Perekrestok Group. Before founding Dellmart, Mr Dell was Vice President directing Cresap's Food and Consumer Products Practice and Senior Partner and Director of Case and Company directing its Food and Distribution practice. Mr. Dell was also formerly a member of the board of directors of the Stamford Historical Society and Stamford Golf Authority. Mr Dell has been a management consultant for over 25 years and has more than 35 years of consulting and corporate experience. Mr Dell received a B.S. in management from Northeastern University and an MBA in marketing from Iona College. He is a frequent speaker for numerous organisations and his articles are published in various Food industry publications. Mr Dell is a member of the Institute of Management Consultants, Council of Logistics Management, Warehousing Education and Research Council, CIES and

Food Distribution Research Society. He is listed in Who's Who and is a Certified Management Consultant. Mr Dell is recommended to be appointed to the Board of Supervisory Directors because of his strong and extensive experience in the food industry internationally, his management consulting experience and knowledge of the Russian food industry through his Board position at Perekrestok. He has no shareholding in the Company.

In order that five of the nominees referred to above can all be appointed to the Board of Supervisory Directors, the Extraordinary General Meeting will be requested to resolve to increase the number of members of the Board of Supervisory Directors from five (5) to eight (8).

1.2 Management Board

Pursuant to the Articles, the Management Board is responsible for the Company's overall management and presently consists of four members. The Management Board meets at least 12 times per year. The names of the current members, together with their respective ages, positions on the Management Board, previous positions and qualifications are set out below. The business address of each of the members of the Management Board is Rokin 55, 1012 KK Amsterdam, the Netherlands.

Mr. Oleg Vysotsky, (37) the Company's Chief Executive Officer ("CEO"), is a graduate of the Makarov State Naval Academy in St. Petersburg. Prior to joining the Company in 1998, Mr. Vysotsky worked in the merchant fleet and later headed the logistics divisions of several leading wholesalers in St. Petersburg.

Ms. Anzhelika Li, (35) the Company's Chief Financial Officer ("CFO"), holds a degree in economics from St. Petersburg State Technical University. Before joining Pyaterochka as a finance director in March 2001, her career included senior finance positions in the banking, audit and publishing industries.

Mr. Wim Rieff, (46) joined the Pyaterochka Group in 2002 and is Pyaterochka's Company Secretary. He is also employed by Mees Pierson Intertrust B.V. and has held a number of senior positions during the 28 years he has been there.

Pursuant to the Articles prior to the Amendment, the management of the Company shall be constituted by a Management Board consisting of two or more Directors A, one Director B and possibly one Director C. Mr. Vysotsky and Ms. Li have been appointed Directors A and Mr. Rieff has been appointed Director B.

The following have been nominated by the Board of Supervisory Directors as candidates for appointment to the Management Board as Directors A (conditional upon closing of the Perekrestok Transaction) at the Extraordinary General Meeting to be held on 12 May 2006:

- (a) **Mr. Lev Khasis**, (39) is Chairman of the Supervisory Board of Directors of the Perekrestok Group and a founding member of Investment Company Fosbourne which invests in various businesses, including retail business in Russia. Mr Khasis graduated from the Aircraft Construction Faculty of the Samara Aircraft University, from the Banking Faculty of the Financial Academy of the Government of the Russian Federation and from the Law Faculty of the University of the Interior Ministry of the Russian Federation and holds a PhD in Law and a PhD in Technics. Mr Khasis is a well respected business man in Russia and received a number of public awards including 2004 Businessman of the Year and 2003 Person of the Year – in the nomination Head of Retail Business. Apart from his activities at Perekrestok, Mr Khasis has held a number of senior board and management positions including Chairman of the board of OAO "Trade House GUM", Chairman of the board of OAO "Trade House TsUM" and CEO of JSC Samara Trading House. Mr Khasis is recommended to be appointed to the Management Board because of his wide ranging and strong experience in Russian retail development and management. Mr Khasis will be entitled to 966,476 Pyaterochka Shares after completion of the Perekrestok Transaction and Pyaterochka Transaction; or alternatively,

Mr. Alexander Kuchinski, (43) works as director for Investment Planning, Alfa Group from September 2005. Mr. Kuchinski has wide experience mainly in fund and asset management including Troika Dialog Asset Management (Managing Director), Leader Capital Partners (Director), AIG-Brunswick Millennium Fund (Investment Officer), Brunswick Capital Management (Associate Director), Sector Capital Fund (Associate Director). He is a graduate of the University of Washington (MBA) and Moscow Institute of Physics & Technology (Bachelor of Science). Mr Kuchinski is recommended to be appointed to the Management Board though his wide experience in companies operating in the Russian market. He holds no shares in the Company and is a representative of Alfa Group
(as Chief Executive Officer ("CEO")).

- (b) **Mr. Vitaly Podolsky**, (37) is the Chief Financial Officer of Perekrestok. Born in the Ukraine, he studied at the Moscow State University Department of Journalism from 1988 to 1991 and graduated from the University of Chicago Graduate School of Business with MBA in International Business and Finance in 1995. Prior to joining Perekrestok, Mr Podolsky worked for Ford Motor Company from 1999 to 2003 in the UK and then in Germany as Finance Controller of Material Planning and Logistics Ford Europe. Mr Podolsky also worked as a Management Consultant in A.T.Kearney Inc (New York) and as Senior Banking Associate in Bankers Trust International Plc(London, UK). Mr Podolsky is recommended to be appointed to the Management Board because of his strong financial and management qualifications and experience and in particular his experience with Perekrestok. He has no shareholding in the Company; or alternatively,

Mr. Anton Mironenkov, (29) is Alfa Group's project manager responsible for investment and strategic planning in Perekrestok and a number of other Alfa Group companies. Prior to joining Alfa Group, Mr. Mironenkov was a Vice President at Troika Dialog, one of the leading Russian investment banks. Mr. Mironenkov is a graduate of the Moscow State University (Master of Arts in Economics). Mr. Mironenkov is recommended to be appointed to the Management Board because of his strong financial qualifications and extensive M&A experience. He holds no shares in the Company (as Chief Financial Officer ("CFO")).

The following have been nominated by the Board of Supervisory Directors as candidates for appointment to the Management Board as a Director C (conditional upon closing of the Perekrestok Transaction) at the Extraordinary General Meeting to be held on 12 May 2006:

- (a) **Mr. Pawel Musial**, (37) has worked since July 2004 as the Chief Operating Officer of Perekrestok. Prior to joining Perekrestok, Mr Musial held senior management positions in the food retail industry in Poland including five years with Tesco in Warsaw (last position acting Cluster Director). He also worked as Trading Director for P.P.H Bizon (retail trade) and Marketing and Advertising Manager for P.H.U Robert (Auchan network). From 1994 to 1997 Mr Musial operated his own company Lokis, which covered wholesale poultry, meat and frozen food. Mr Musial graduated from SGGW Warsaw with a degree of engineer in Nutrition Technology. Mr Musial is recommended to be appointed to the Management Board because of his extensive management experience in food retail, including his experience with Perekrestok. He holds no shares in the Company; or alternatively,

Mr. Andrey Rybakov, (44) is the deputy of the CEO and member of the Management Board of Perekrestok, with main responsibility for development of the store network. Mr Rybakov graduated as an industrial engineer from the Moscow Institute of Steel and Alloy in 1989. Prior to joining Perekrestok in 1996, Mr Rybakov held a number of senior positions in Russian companies with responsibility mainly for real estate acquisition and development. Mr Rybakov is recommended to be appointed to the Management Board because of his extensive experience in retail store development in Russia and his experience as a member of the Management Board of Perekrestok. He holds no shares in the Company.

- (b) **Mr. Andrei Gusev**, (33) has worked as the director for Portfolio Management and Control in Alfa Group since July 2005 and from November 2001 to July 2005 as director for Investment Planning of Alfa Group. In his current role at Alfa Group Mr Gusev also serves on a number of Supervisory Boards of Alfa Group companies including on the Supervisory Board of Directors of the Perekrestok Group. Prior to joining Alfa Group, Mr Gusev worked in the consulting group at Deloitte and Touche. Mr Gusev is a graduate of the Moscow State University (Applied Mathematics), and the Wharton School University of Pennsylvania (M.B.A). Mr. Gusev is recommended to be appointed to the Management Board because of his strong experience in portfolio management and board experience in Alfa Group companies. He has no shareholding in the Company and is a representative of Alfa Group; or alternatively,

Mr. Alexei Pankratov (30), the Alfa Group's project manager responsible for investment and strategic planning, is a graduate of Moscow State Institute of International Relations. Before joining Alfa Group in 2005, Mr. Pankratov held a number of senior positions in the investment banking industry. Mr. Pankratov is recommended to be appointed to the Management Board because of his extensive M&A and strategic planning experience. He holds no shares in the Company.

At the Extraordinary General Meeting on 12 May 2006, it is intended that, subject to Shareholder approval and conditional upon closing of the Perekrestok Transaction, Oleg Vysotsky will step down as CEO and become a Director C instead of A and that Anzhelika Li will step down as CFO and become a Director C instead of A. The

number of Directors on the Management Board will therefore be increased from three (3) to seven (7), consisting of two (2) Directors A, one (1) Director B and four (4) Directors C. The Articles will be amended to facilitate these changes.

1.3 Executive officers

The names of the members of Pyaterochka’s senior management team (the “**Executive Officers**”), together with their respective ages, positions and qualifications, are set out below. The business address of each of the Executive Officers is Rokin 55, 1012 KK Amsterdam, the Netherlands.

Mr. Igor Senko (44), the Head of Franchise Development is graduated from Kaliningrad Technical Institute (engineer-economist) and studied in Leningrad Financial Economics Institute (management of economics and finance). Prior to joining the Company in 2001, he worked as a Financial Director in several Russian and international companies in production, wholesale and retail sectors.

Mr. Igor Sapozhkov (35), the Head of Purchasing, is a graduate of the St. Petersburg State University (1994) in chemistry and holds degrees from the University of Paris (*DEA chimie organique*) (1992) and IEMBA Stockholm School of Economics in St. Petersburg (2003). Before joining the Pyaterochka Group in 2001, he worked as a trade managing director in several Russian firms.

Mr. Oleg Krytsyn (39), the Head of Pyaterochka’s Audit Department, is a graduate of Lvov State Medical Institute (1989). He joined the Company in 1999 as head of the Purchasing Department, subsequently becoming Vice President for purchase inspection and Head of the Audit Department. Prior to joining the Company, Mr. Krytsyn’s career included several positions in grocery retail. Mr. Krytsyn holds an MBA from St. Petersburg State University.

Mr. Sergei Lepkovich (39), the Head of the Pyaterochka Group’s St. Petersburg operations, received his first degree from the St. Petersburg Avionics Institute. Prior to joining the Company in 1998, he held senior positions in several leading businesses in St. Petersburg. In 2001, he received the National Trade Association award. He received an award for school humanisation in December 2003. In 2004, the Association of Russian Managers ranked Mr. Lepkovich among the top 30 professional managers of Russia.

Mr. Gritsaenko Denis Yurievich (35), is the Managing Director for Moscow and the Moscow region as of 1 February 2006. From 1998 to 2002 Mr Yurievich was Managing Director of “Craft-Trading” (distribution of alcoholic beverages) and from 2002 to 2003 studied at the Business School of the Open University of Great Britain, specialising in Finance and Management. From December 2003 to March 2004, Mr. Yurievich was Regional sales manager at Pyaterochka, St. Petersburg, and from March 2004 to October 2004, head of distribution networks directorate for St. Petersburg. From October 2004 to July 2005, he was head of the distribution network directorate Moscow, and subsequently from July 2005 to 1 February 2006, Deputy Managing Director for Moscow and the Moscow region before moving to his current role.

1.4 Other administrative, management or supervisory body memberships or partnerships

Save as set out below, the members of the Board of Supervisory Directors, Management Board and Executive Officers and those persons nominated for appointment to the Board of Supervisory Directors and Management Board, have not been members of administrative, management or supervisory bodies in any other company (other than companies in the Pyaterochka Group) or partners in any partnership at any time in the last five years prior to the date of this document.

	Current administrative, management or supervisory body memberships or partnerships ¹	Former administrative, management or supervisory body memberships or partnerships ¹
Andrei Rogachev	Member of the Board of Supervisory directors of Formata Holding B.V. ; Member of the board of directors of Macromir; Member of the board of directors of LEK Estate	
Alexander Girda	Member of the Board of Supervisory directors of Formata Holding B.V.	
Tatyana Franous	Member of the Board of Supervisory directors of Formata Holding B.V.	

	Current administrative, management or supervisory body memberships or partnerships	Former administrative, management or supervisory body memberships or partnerships
Igor Vidiaev	Member of the Board of Supervisory directors of Formata Holding B.V.	
David Noble	Non-executive Director of Morley's of Bicester Ltd, Altergraphics Ltd and Stankers Estates	
Alexander Girda	Director General of LEK Trading House	
Gritsaenko Denis Yurievich		Managing Director of "Craft-Trading"
Wim Rieff	Member of the Management Board of: Stichting S. Robert & Denise Zeilstra Foundation Stichting Administratiekantoor Arteo Caps Areates Investments B.V. Stichting Administratiekantoor Consortium van Zele Garmin B.V. Geofinance N.V. Stichting Alkenhof Ormonde Investment Management B.V. B.V. Blondine Stichting Administratiekantoor Pyaterochka Holding Futuru-Familienstiftung Cumula-Familienstiftung Member of the Supervisory Board of Administratiekantoor Claimindo B.V.	Former member of: The Risk Advisory Group B.V. BSMG Worldwide B.V. CPCG Holding B.V. Formata Holding B.V. Selba Holding B.V. Cigares B.V. Santopo B.V.
Anzhelika Li		Financial director in North-West audit company
Alexander Kosiyanenکو	Member of the Supervisory Board of Alfa Group; Member of the Supervisory Board of Directors of the Perekrestok Group; Chairman of the Management Board of ZAO "Trading House "Perekriostok"; Director of Multiserve Holdings Ltd.; Director of Hamilton International Ltd; Member of the Board of Directors of ZAO "Sanatory Zelenaya Roscha"; Director of Dasana Investments Limited.	Member of the Board of Directors of ZAO "Trading House "Perekrestok"; Member of the Board of Directors of OAO "Trade House GUM"
Franz Wolf	Director of: CTF Holdings Ltd. CTF Consultancy Ltd. Eco Holdings Ltd. Bardsley Investment Corporation Cotesmore Holdings Ltd. Laketown Services Ltd. VEGA Consulting International Ltd. Altimo Holdings & Investments Ltd. Avenue Ltd. Santel Ltd. Janow Properties Ltd. Aqute Holdings & Investments Inc. Perekrestok Holdings Ltd. Russian Technologies Ltd. Russian Technologies Venture Partners Ltd.	Director of: Crown Tea Holdings Ltd. Vinorum Holdings Ltd Kubansugar Holdings Ltd. Gum Holdings Ltd. Arbat Development Ltd. Estate Projects Holdings Ltd.

	Current administrative, management or supervisory body memberships or partnerships	Former administrative, management or supervisory body memberships or partnerships
Mikhail Fridman	<p>Chairman of the Supervisory Board of Alfa Group;</p> <p>Chairman of the Board of Directors of Alfa-Bank;</p> <p>Chairman of the Board of Directors of TNK-BP;</p> <p>Member of the Board of Directors of VimpelCom;</p> <p>Member of the International Advisory Board of the Council on Foreign Relations (USA);</p> <p>Member of the Supervisory Board of directors of A1 Group;</p> <p>Member of the Supervisory Board of directors of Altimio;</p> <p>Member of the Supervisory Board of Directors of the Perekrestok Group;</p> <p>Chairman of the Board of Directors of Alfa Finance Holdings S.A.</p>	<p>Member of the Supervisory Board of Directors of Crown Commodities;</p> <p>Members of the Supervisory Board of Directors of Alfa Estate;</p>
Alla Kudryavetsva	<p>Director of:</p> <p>Altimio Holdings & Investments Ltd.;</p> <p>CTF Holdings Ltd;</p> <p>Eco Holdings Ltd;</p> <p>Russian Technologies Ltd;</p>	
Nigel Robinson	<p>Member of the Supervisory Board of Alfa Group;</p> <p>Member of the Supervisory Board of Directors of A1 Group;</p> <p>Member of the Supervisory Board of Directors of Altimio;</p> <p>Member of the Supervisory Board of Directors of Russian Technologies;</p> <p>Member of the Audit Committee of VimpelCom;</p> <p>Member of the Audit Committee of Altimio;</p> <p>Chairman of the Audit Committee of A1 Group;</p>	<p>Member of the Supervisory Board of Directors of Kubansugar Holding;</p> <p>Member of the Supervisory Board of Directors of Crown Commodities;</p> <p>Member of the Supervisory Board of Directors of Crown Tea Holding;</p> <p>Member of the Supervisory Board of Directors of Vinorum Holding;</p> <p>Member of the Supervisory Board of Directors of Alfa Estate</p>
Leonid Reznikovich	<p>Member of the Supervisory Board of Alfa Group;</p> <p>CEO and head of the Management Board of Altimio;</p> <p>Member of the Supervisory Board of Directors of the Perekrestok Group;</p> <p>Member of the Board of Directors of VimpelCom;</p> <p>Member of the Supervisory Board of Directors of the Russian Technologies;</p> <p>Member of the Supervisory Board of Directors of A1 Group;</p> <p>Member of the Supervisory Board of Directors of Smirnov's Trading House.</p>	<p>Member of the Supervisory Board of Directors of Altimio</p>
Alexander Savin	<p>Member of the Supervisory Board of Alfa Group;</p> <p>Member of the Supervisory Board of Directors of A1 Group;</p> <p>Managing Director of A1 Group subholding</p>	<p>Member of the Board of Directors of OAO Kuzbassenergo;</p> <p>Director of Investment Banking in Renaissance Capital;</p> <p>Member of the Board of Directors of OAO Mosenergo</p> <p>Managing Director of Alfa Eco Group subholding</p>
Olga Manuylova	<p>Member of the Audit Committee of Perekrestok Group;</p> <p>Member of the Audit Committee of Altimio;</p> <p>Member of the Audit Committee of A1 Group.</p>	

	Current administrative, management or supervisory body memberships or partnerships	Former administrative, management or supervisory body memberships or partnerships
David Gould	<p>Deputy Director for Corporate Development Finance and Control, Alfa Group;</p> <p>Member of the Supervisory Board of Directors of the Perekrestok Group;</p> <p>Member of the Board of Directors of Alfa Finance Holdings S.A.;</p> <p>Member of the Audit Committee of Alfa Finance Holdings S.A.;</p> <p>Chairman of the Audit Committee of Perekrestok Group.</p>	<p>Member of the Board of Directors of Alfa Bank.</p>
Frank Dell	<p>President and CEO of Dellmart & Company, Inc.</p> <p>Independent director on the Supervisory Board of Directors of Perekrestok Group</p> <p>Co-founder and COO of Reason for the Season LLC</p>	<p>Member of the Board of Directors of the Stamford Historical Society and Stamford Golf Authority</p> <p>Senior Partner and Director of Case and Company, Inc</p>
Lev Khasis	<p>Chairman of the Supervisory Board of Directors of Perekrestok Group;</p> <p>Chairman of the Strategic Planning Committee of Perekrestok Group;</p> <p>Member of the Consumer Market Committee of the Trade Industrial Chamber of the Russian Federation;</p> <p>Member of the Board of Directors of OOO "DailyFoods";</p> <p>Member of the Board of Directors of OOO "Stolichnaya Torgovaya Kompaniya";</p> <p>Member of the Board of Directors of ZAO "TVK Aviapark";</p> <p>Member of the Board of Directors of OAO "Aviation Company "TRANSAERO</p>	<p>Member of the Supervisory Board of Alfa Group;</p> <p>Member of the Board of Directors of ZAO "Betanol Rus";</p> <p>Member of the Board of Directors of OOO "Lankor";</p> <p>Member of the Board of Directors of ZAO <<TDS Logistic>>;</p> <p>Chairman of the Board of Directors of OAO "Trade House Gum";</p> <p>Chairman of Board of Directors of OAO "Trade House TsUM";</p> <p>Member of the Board of Directors of ZAO "Trading House Perekrestok".</p>
Alexander Kuchinski	<p>Director for Investment Planning, Alfa Group;</p> <p>Member of the Supervisory Board of Directors of Alfa Private Equity;</p> <p>Chairman of the Board of Directors of Cats & Dogs.</p>	<p>Managing Director, Troika Dialog Asset Management;</p> <p>Director, Leader Capital Partners;</p> <p>Member of the Board of Directors of OAO "Trade House TsUM"</p> <p>Member of the Board of Directors of Arbat Prestige</p> <p>Member of the Supervisory Board of Directors of Format group of companies.</p>
Vitaly Podolsky	<p>Member of the Management Board of ZAO "Trading House Perekriostok";</p> <p>Member of the Expert Counsel of the Journal "Finansoviy Director";</p> <p>Member of the Board of Directors of "SIFE in Russia".</p>	<p>The Chairman of the Supervisory Board of Directors of the Group of companies "SPAR Nizhniy Novgorod".</p>
Pawel Musial	<p>Member of the Management Board of ZAO "Trading House "Perekriostok".</p>	
Andrey Rybakov	<p>Chairman of the Board of Directors of ZAO "Sanatory Zelenaya Roscha";</p> <p>Director of Salford Investments Ltd;</p> <p>Member of the Management Board of ZAO "Trading House "Perekriostok.</p>	<p>Member of the Board of Directors of OAO "Trade House GUM".</p>

	Current administrative, management or supervisory body memberships or partnerships	Former administrative, management or supervisory body memberships or partnerships
Andrei Gusev	Director for Portfolio Management and Control, Alfa Group; Member of the Supervisory Board of Directors of Russian Technologies; Member of the Supervisory Board of Directors of Perekrestok Group; Member of the Supervisory Board of Directors of Altimo; Secretary of the Supervisory Board of Directors of AI Group; Secretary of the Supervisory Board of Directors of Smirnov Trading House; Chairman of the Compensation Committee of Perekrestok Group.	

1 In this Part, there are references to membership of the supervisory boards of Alfa Group, AI Group, Perekrestok Group, Russian Technologies, Alfa Private Equity, Smirnov's Trading House and Altimo. These are references to memberships of informal supervisory bodies which review major and strategic decisions of the company concerned but which are not instituted as a legal board.

1.5 Confirmations

At the date of this document none of the members of Pyaterochka's administrative, management or supervisory bodies or senior managers has:

- (a) any convictions in relation to fraudulent offences for at least the previous five years prior to the date of this document;
- (b) been a member of the administrative, management, supervisory bodies or senior management of a company associated with any bankruptcies, receiverships or liquidations for at least the previous five years prior to the date of this document; or
- (c) been subject to any official public incrimination and/or sanctioned by any statutory or regulatory authorities (including designated professional bodies) or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for at least the previous five years prior to the date of this document.

1.6 Corporate Governance

Under the new Dutch corporate governance code, the Board of Supervisory Directors should consist of independent persons, except for one member. At the moment, Pyaterochka is not compliant with this provision. Pyaterochka intends to appoint a second independent member to the Board of Supervisory Directors in 2006 to replace one of the Alfa Group representatives nominated for appointment to the Board of Supervisory Directors at the Extraordinary General Meeting. The Company has decided on the gradual implementation of this best practice provision given the difficulty in identifying candidates with suitable experience in the context of the Pyaterochka Group's predominantly Russian operations and requirements of the Dutch corporate governance code and in order to maintain an adequate number of persons on the Board of Supervisory Directors with knowledge of the Company's business.

1.7 Committees

Pyaterochka has an audit committee, remuneration committee, related parties committee and management appointments committee. The members of the audit committee are Mr. Noble and Ms. Franous. The members of the remuneration committee are Mr. Noble and Mr. Girda. The members of the related parties committee are Mr. Noble and Mr. Vidiaev. The members of the management appointments committee are Mr. Noble and Mr. Rogachev.

The remuneration committee advises on the compensation to be paid to members of the Management Board.

The audit committee assists the Board of Supervisory Directors in fulfilling its supervision and monitoring responsibilities in respect of internal control within the Pyaterochka Group, including internal control over financial reporting and advises in respect of the appointment of the auditor and its remuneration.

The related parties committee advises in respect of transactions to be concluded by the Group's officers.

The management appointments committee advises in respect of the selection and appointment of members of the Board of Supervisory Directors and the Management Board.

1.8 Compensation and interests of the Board of Supervisory Directors and the Management Board

For the year ended 31 December 2005, the Company paid total aggregate remuneration (including benefits in kind) of US\$1.745 million to the Board of Supervisory Directors and Management Board of the Pyaterochka Group and US\$0.325 million to the Executive Officers.

Except as disclosed below and in "*Major Shareholders and Related Party Transactions*", neither any member of the management of the Company nor any connected person has any interest, including any options, in the share capital of the Company.

1.9 Service contracts

There are no service contracts between any member of the Board of Supervisory Directors or any member of the Management Board with any member of the Pyaterochka Group which provide for benefits upon termination.

1.10 Employee stock incentive plan

The Pyaterochka Group has established a stock incentive plan for certain of its executives and key employees, including members of the Management Board and executive officers (collectively, "**Eligible Participants**"). Under the terms of the plan, Eligible Participants may be granted options to acquire the economic benefit in, or receive the cash value of, a certain number of GDRs. The grant of any such option to any Eligible Participant, and the number of GDRs subject to such option, will be subject to certain performance criteria specific to such Eligible Participant being met, including, *inter alia*, the Pyaterochka Group achieving certain EBITDA, store roll-out and cost containment or reduction targets. The Company may vary or waive such performance criteria. Any option granted may not be exercised earlier than on the third anniversary of its grant. The exercise price of any such option will be equal to the aggregate nominal value of the shares represented by the GDRs subject to such option. The Pyaterochka Group will bear the costs associated with the stock incentive plan, either by purchasing a requisite number of the GDRs on the market or, at the option of the Pyaterochka Group, procuring that a sufficient number of shares are issued by Pyaterochka and deposited with the Depositary. Options were granted under the stock incentive plan in August and December 2005. The costs associated with the plan over its term will not exceed US\$150 million.

1.11 Share options held by Pyaterochka Directors

The following members of the Board of Supervisory Directors and Management Board hold options over GDRs. The exercise price for each of the options is €0.25 per option.

<u>Name</u>	<u>Number of options</u>	<u>Vesting Date</u>	<u>Exercise Period</u>
Igor Vidiaev	766,136	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Igor Vidiaev	612,909	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2009
Igor Vidiaev	919,363	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2010
Tatiana Franous	766,136	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Anzhelika Li	191,534	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Anzhelika Li	191,534	Between 2 June 2007 and 2 December 2008 (inclusive)	12 months commencing 2 December 2008
Oleg Visotsky	383,068	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Oleg Visotsky	383,068	Between 2 June 2007 and 2 December 2008 (inclusive)	12 months commencing 2 December 2008

PART VIII. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

1.1 Shareholders

The table below sets forth certain information regarding the ownership of Pyaterochka Shares as of the date of this document and as adjusted to reflect the issue of New Pyaterochka Shares and the sale of existing Pyaterochka Shares, pursuant to the Perekrestok Transaction and the Pyaterochka Transaction.

Shareholders	As at the date of this document		After completion of the Perekrestok Transaction and the Pyaterochka Transaction	
	Number of Pyaterochka Shares	% of share capital	Number of Pyaterochka Shares	% of share capital ¹
Marie-Carla Corporation N.V.	7,357,325	19.21%	7,357,325	13.6%
Tayleforth N.V.	16,196,642	42.28%	4,128,527	7.63%
Cesaro Holdings Limited	2,467,917	6.44%	11,728,357	21.67%
Luckyworth Limited	—	—	17,493,600	32.32%
Templeton Strategic Emerging Markets Fund LDC	—	—	1,127,328	2.08%
Total	26,021,884	67.93%	41,835,137	77.30%

¹ Pursuant to the Pyaterochka Agreement described in further detail in paragraph 1.2 of Part X of this document, under certain circumstances relating to the future financial performance of Pyaterochka and Perekrestok, the number of Pyaterochka Shares transferred to Luckyworth and Cesaro may increase by 3.37% or decrease by 2% of the share capital of Pyaterochka and the interests of Mr. Rogachev, Mr. Girda, Ms. Franous and Mr. Vidiaev, held indirectly via the Founding Shareholders, will correspondingly decrease or increase.

No shareholder has voting rights different from any other holder of Pyaterochka Shares.

Mr. Rogachev, a member of the Board of Supervisory Directors, has a beneficial interest in 32.26 per cent., and after the Perekrestok Transaction and the Pyaterochka Transaction, 11.14 per cent. of the Company. Mr. Girda, a member of the Board of Supervisory Directors, has a beneficial interest in 27.04 per cent., and, after the Perekrestok Transaction and the Pyaterochka Transaction, will have a beneficial interest in 9.33 per cent. of the Company. Ms. Franous, a member of the Board of Supervisory Directors, has a beneficial interest in 1.70 per cent., and, after the Perekrestok Transaction and the Pyaterochka Transaction, will have a beneficial interest in 0.59 per cent. of the Company. Mr. Vidiaev, a member of the Board of Supervisory Directors, has a beneficial interest in 0.49 per cent., and, after the Perekrestok Transaction and the Pyaterochka Transaction, will have a beneficial interest in 0.17 per cent. of the Company. These beneficial interests in the Company are held indirectly through Marie-Carla Corporation N.V. and Tayleforth N.V. (the “**Founding Shareholders**”).

Mr. Fridman, who has been nominated to the Board of Supervisory Directors, has a beneficial interest in 2.91 per cent. of the Company which is held indirectly through Cesaro. After the Perekrestok Transaction and the Pyaterochka Transaction, Mr. Fridman will have a beneficial interest in 21.60 per cent. of the Company of which an interest of 9.79 per cent. will be held indirectly through Cesaro and the remainder will be held through Luckyworth.

Mr. Kosiyanenko, who has been nominated to the Board of Supervisory Directors, will, after the Perekrestok Transaction and the Pyaterochka Transaction, have a beneficial interest in 3.39 per cent. of the Company. Mr. Khasis, who has been nominated to the Management Board, will, after the Perekrestok Transaction and the Pyaterochka Transaction, have a beneficial interest in 1.79 per cent. of the Company. Mr. Reznikovich, who has been nominated to the Board of Supervisory Directors, will, after the Perekrestok Transaction and the Pyaterochka Transaction, have a beneficial interest in 1.00 per cent. of the Company. These beneficial interests in the Company will be held indirectly through Luckyworth.

Save as disclosed above, there is no other person who, directly or indirectly, is interested in 3 per cent. or more of the Company’s capital as at the date of this document.

Mr. Rogachev and Mr. Girda control the Company as at the date of this document. Completion of the Perekrestok Transaction and the Pyaterochka Transaction will result in a change of control of the Company; following completion Cesaro and Luckyworth (the “**New Shareholders**”) will control the Company. The Pyaterochka Agreement contains certain restrictions on the transfer of shares and issue of new shares in the Company, including a right for the Founding Shareholders to block the issue of new shares for a period of eighteen months following completion of the Pyaterochka Transaction (save in connection with the issue of Pyaterochka Shares

under the Option Plan or the issue of Pyaterochka Shares to fund capital expenditure to specified levels), a prohibition on sales of Pyaterochka Shares by the Founding Shareholders for a period of one year following completion of the Pyaterochka Transaction (save to a connected party or third party enforcing security under the Finance Documents).

Save as disclosed above, there are no other persons who could exercise control over the Company and no person has any right or option to acquire Pyaterochka Shares, GDRs or any other securities of the Company.

Save as disclosed in this section “Major Shareholders and Related Party Transactions”, none of the members of the Board of Supervisory Directors or the Management Board had or has any interests in any transactions which are or which were unusual in their nature or conditions or significant to the business of the Pyaterochka Group and which were effected by the Company during the current financial year, during the financial year ended 31 December 2005 or during any previous financial year and which remain in any respect outstanding or unperformed.

1.2 Hypermarket Project

In 2003, the Pyaterochka Group established a business to operate a chain of hypermarkets (see “Russian Grocery Retail Industry – Modern grocery retail formats”) under the Carousel brand in the Moscow area and the St. Petersburg area (the “**Carousel Project**”). The Carousel Project is operated by a group of companies controlled by the Founding Shareholders (the “**Carousel Group**”), including Formata Holding B.V. (“**Formata**”), a company established in The Netherlands, as well as its wholly owned subsidiaries. Since its inception, Carousel has opened seven hypermarkets in St. Petersburg, Leningradsky and Nizhny Novgorod. Carousel’s stores vary in size, from approximately 4,000 square metres to approximately 11,000 square metres of sales area and offer food and non-food products. By the end of 2008, Carousel is expected to have approximately 30 hypermarkets.

The Carousel hypermarkets currently compete with Perekrestok’s hypermarket segment which represented 17.7 per cent. of Perekrestok’s turnover in 2004. The Carousel hypermarkets may in the future compete with a greater proportion of the Enlarged Group’s stores, depending on the Enlarged Group’s expansion in terms of geography and market segment and on Carousel’s geographic expansion. In particular, Carousel may compete directly with the Enlarged Group where Enlarged Group stores are located in close proximity (with less than a kilometre between them) of a Carousel hypermarket. The construction of hypermarkets for the Carousel Project began in late 2003 and was initially financed and managed by the Pyaterochka Group. The assets and liabilities relating to the Carousel Project were transferred to the Carousel Group in 2005. See “– Major Shareholders and Related Party Transactions – Related party transactions relating to the Carousel Project”.

1.3 Related Party Transactions

There are a number of past and ongoing transactions between members of the Pyaterochka Group on one hand and other companies controlled by, or connected with, the Founding Shareholders or parties relating to them on the other hand, as described below.

Currently, any related party transactions proposed to be entered into by the Pyaterochka Group are subject to the review of, and approval by, the non-executive chairman of the Board of Supervisory Directors and must be on terms negotiated on an arm’s-length basis.

(a) Transfer of Speak Global

In March 2005, the Founding Shareholders contributed and transferred to the Company the entire share capital in Speak Global as a free share premium contribution, whereupon the Company became the sole shareholder in Speak Global.

(b) Related party transactions relating to the Carousel Project

Asset transfers and loans between the Pyaterochka Group and the Carousel Group

The Pyaterochka Group transferred to the Carousel Group the assets and liabilities relating to the Carousel Project in a number of transactions undertaken in 2004 and 2005, as follows.

- (i) In 2004, the Pyaterochka Group transferred to the Carousel Group (see “Hypermarket Project”) all of its interests and investments in the partially constructed Carousel hypermarkets in the St. Petersburg area (comprising land, buildings and construction in progress) with a book value equivalent to US\$23.4 million and provided the Carousel Group with an amount of approximately US\$32 million as loans with interest accruing at the annual rate of 0.1 per cent. No cash consideration was received from the Carousel Group in connection with the transfer and the loans were not repaid. As a consequence of this transfer and loan, a receivable of US\$55.8 million was recorded in the Pyaterochka Financial Statements as at and for the year ended 31 December 2004. The legal ownership of this receivable was apportioned between Agrotorg’s wholly owned subsidiaries LLC Foodsale, LLC Shop Pyaterochka Plus and LLC Pyaterochka 502.

During the year ended 31 December 2004, in connection with the spin-off of the Hypermarket Project, the Pyaterochka Group released its shareholders from the obligations under a loan receivable for US\$17.9 million. The effect of this transaction was charged to equity as a distribution to shareholders.

- (ii) In March 2005, the Pyaterochka Group sold all of the shares held by Agrotorg in LLC Foodsale, LCC Shop Pyaterochka Plus and LLC Shop Pyaterochka 502 to the Carousel Group for nominal consideration. The economic effect of this sale was to transfer the receivable arising out of the hypermarkets asset transfer and loan referred to above (in an amount of US\$55.8 million) to the Carousel Group, thereby releasing the Carousel Group from its obligations under the receivable as well as to impose on the Pyaterochka Group a debt of US\$3.9 million in favour of the Carousel Group (resulting from the intra-group indebtedness which was owed by the Pyaterochka Group to LLC Foodsale, LLC Shop Pyaterochka Plus and LLC Pyaterochka 502 prior to the sale). The transaction was treated in the consolidated financial statements of the Pyaterochka Group as a dividend in kind and decreased Shareholders’ equity by the equivalent of US\$59.6 million. The Founding Shareholders have agreed to indemnify the Pyaterochka Group against any tax liabilities arising in connection with the sale (including any interest and penalties incurred thereon).
- (iii) In addition to the above, the Pyaterochka Group provided unsecured loans to the Carousel Group to finance the Carousel Group’s capital expenditure and working capital in 2004. Such loans gave rise to a short-term unsecured note receivable of US\$7 million recorded in the Pyaterochka Financial Statements as at 31 December 2004. This loan was fully repaid in August 2005. During 2004, the Pyaterochka Group provided financing to the Carousel Group by issuing loans to LLC Union-Stroi. As of 31 December 2004, the outstanding receivable balance from LLC Union-Stroi for the amount of US\$2.6 million is recorded within receivables and prepayments. In 2005, the Pyaterochka Group has provided additional short-term unsecured loans to the Carousel Group for working capital purposes. The Carousel Group repaid all outstanding loans as of 31 August 2005.
- (iv) In November 2004, the Pyaterochka Group received a loan from LLC Kaiser for US\$8.5 million. The loan bears interest at a rate of 0.1 per cent. per annum. The loan has been fully repaid during 2005.

Shared services between the Pyaterochka Group and the Carousel Group

In May 2005, the Pyaterochka Group entered into a shared services agreement with Formata for the provision to the Carousel Group of certain services by the Pyaterochka Group, including services relating to purchasing, human resources and accounting, by companies within the Pyaterochka Group and/or third parties. Pursuant to the Pyaterochka Transaction and the Perekrestok Transaction, Pyaterochka and Formata have terminated this agreement.

Pyaterochka Group trademark agreement

In the second half of 2005, the Pyaterochka Group entered into an agreement with Carousel under which Carousel is able to purchase products bearing Pyaterochka Group trademarks directly from the supplier of those products. Carousel is then able to sell those products in its stores under the Pyaterochka Group trademark.

Call Option Agreement

As part of the terms of the Perekrestok Transaction and the Pyaterochka Transaction, the shareholders in Formata have granted Pyaterochka a call option to acquire the entire share capital of Formata and its subsidiaries. The

consideration for the exercise of the call option will be calculated by reference to the future financial performance of Formata and it will be satisfied as to 75 per cent. by a cash payment and 25 per cent. by an issue of Pyaterochka Shares (provided that if Pyaterochka Shares are not listed on a recognised stock exchange on the completion date of the call option the consideration will be satisfied entirely by way of cash). The option is exercisable during the period beginning on 1 January 2008 and ending on 1 July 2008. The option agreement is conditional on completion of the Pyaterochka Agreement. Any acquisition of option shares is also subject to certain conditions, including Pyaterochka receiving any required regulatory, shareholder or third party approval or consent. Please refer to Part X of this document for further details of this agreement.

Carousel Agreement

OOO “Rusel” and OOO “Rusel-M”, both wholly owned subsidiaries of Formata, have an arms-length agreement with OOO “Agrotorg” and OOO “Agroaspekt” respectively, both wholly owned subsidiaries of Pyaterochka with respect to the provision of certain shared services, including a joint-purchasing arrangement. Pursuant to the Pyaterochka Transaction and the Perekrestok Transaction, Agrotorg, Agroaspekt and Rusel and Rusel-M have agreed to extend the term of this agreement for a further two years.

(c) Other related party transactions

Relationship with Media 5 and Media 5M

In 2005 and 2004, the Pyaterochka Group leased advertising space in its St. Petersburg and Moscow stores to LLC Media 5 (“**Media 5**”) and LLC Media 5M (“**Media 5M**”), respectively, companies controlled by certain members of the Board of Supervisory Directors. In 2005, the rent receivable by the Pyaterochka Group from Media 5 was approximately US\$0.5 million and the rent receivable from Media 5M was approximately US\$0.8 million.

In 2004, the Pyaterochka Group provided unsecured loans to Media 5 in an aggregate principal amount of approximately US\$0.2 million, bearing an interest rate of 0.8 per cent. per annum.

In May 2005, the Pyaterochka Group entered into an advertising space lease agreement with Media 5. Under the terms of the lease agreement, a quarterly rent of US\$1,000 per store is payable by Media 5 to the Pyaterochka Group. The rent is subject to annual review by the non-executive chairman of the Board of Supervisory Directors. The Company believes that the lease agreement is on normal commercial terms that are comparable to those that would be attainable by the Pyaterochka Group in the ordinary course from an unrelated contractor under similar circumstances. The lease agreement has a term of five years and can be terminated by either party, subject to a one-year notice period.

Relationship with LEK Estate

The Pyaterochka Group has engaged and expects to continue to engage the LEK Estate group of companies (“**LEK Estate**”) as contractor for the purposes of construction of stores for the Pyaterochka Group in the St. Petersburg area. Mr. Rogachev is a member of the board of directors of LEK Estate. The Company believes that the terms on which LEK Estate companies are engaged as contractors are normal commercial terms and would be comparable to those that would be attainable by the Pyaterochka Group in the ordinary course from an unrelated contractor under similar circumstances.

In 2003, the Pyaterochka Group purchased a newly completed building from LEK Estate for a total consideration of US\$0.5 million.

Relationship with Macromir

Over the period of 2002 to 2005, the Pyaterochka Group engaged LLC Macromir (“**Macromir**”), as one of the contractors for the construction of the hypermarkets. Mr. Rogachev is a member of the board of directors of Macromir. As at 31 December 2005, 2004 and 2003, the balances of advances paid by the Pyaterochka Group to Macromir for construction in progress by Macromir, amounted to US\$0.2 million, US\$0.4 million and US\$0.6 million, respectively. Pyaterochka believes that the terms on which Macromir was engaged as a

contractor were normal commercial terms that are comparable to those that would be attainable by the Pyaterochka Group in the ordinary course from an unrelated contractor under similar circumstances.

Arrangements with respect to tax liabilities

In connection with the revaluation of the Company's investments in the Operating Companies required by Dutch law (see Part XIII "Additional Information – Share capital" below), the Pyaterochka Group was liable for Dutch withholding taxes in the amount of US\$3.5 million as at 31 December 2004. The Founding Shareholders have agreed to indemnify the Pyaterochka Group in respect of any tax liability arising in connection therewith (including any interest and penalties) in addition to the indemnification given in respect of asset transfers between the Pyaterochka Group and the Carousel Group described in 1.3(b) above.

Loan Agreements with Marie-Carla Corporation N.V. for financing of Kopeika acquisition

The Pyaterochka Group entered into two loan agreements with its shareholder Marie-Carla Corporation N.V. for a total of US\$60.1 million to finance the purchase of Kopeika stores in St. Petersburg. In June 2005, the Pyaterochka Group received US\$59.2 million under such agreements. During 2005, the Pyaterochka Group has fully repaid the loan resulting in US\$nil outstanding balance as of 31 December 2005.

January 2006 Loan agreements

In January 2006, Speak Global received loans from Technibel Worldwide Ltd for US\$8 million and Desside Holding Ltd for US\$12 million. The loans bore interest of 8.5 per cent. The loans matured and were fully repaid in February 2006. Technibel Worldwide Ltd and Desside Holding Ltd are both companies controlled by certain members of the Board of Supervisory Directors.

1.4 Perekrestok Related Party Transactions

There are a number of past and ongoing transactions between members of the Perekrestok Group on the one hand and other companies controlled by, or connected with, the New Shareholders or parties relating to them on the other hand, as described below.

Currently, any potential related party transactions proposed to be entered into by Russian companies in the Perekrestok Group are subject to the review of, and approval by a tender committee in accordance with the internal regulations of the Perekrestok Group, are put out to competitive tender, and must be on terms negotiated on an arm's length basis.

Perekrestok is owned and controlled by the Alfa Group. The Alfa Group owns and controls a number of other businesses with whom Perekrestok has entered into a number of past and ongoing transactions.

(a) Transactions with Alfa Bank

In 2005 the Perekrestok Group paid US\$1,604,000 (1,652,000 in 2004) to OAO "Alfa Bank", which is controlled, together with Perekrestok, by the New Shareholders ("Alfa Bank"), in interest expenses on loans received. In 2005 Perekrestok held US\$5,442,000 (4,601,000 in 2004) in cash and cash equivalents with OAO "Alfa Bank" and had, in 2004 only, US\$4,872,000 outstanding in short term loans from Alfa Bank.

The Perekrestok Group has an open credit line with Alfa Bank. This credit line has a maximum limit of US\$100 million and is at a floating rate of interest. At 31 December 2005, the annual interest rate on this credit line was in the range from 8.75 per cent. to 10.25 per cent.

(b) Transactions with Alfa Insurance

The Perekrestok Group purchases business, real estate and product insurance from Alfa Insurance with the insurance premium paid to Alfa Insurance in the amount of approximately US\$ 87,649 in 2005.

(c) Transactions with VimpelCom

Perekrestok purchased communication services from VimpelCom for US\$159,000 in 2005 (US\$343,000 in 2004). Perekrestok also provided mobile phone payments processing to VimpelCom for which VimpelCom paid US\$600,648 in 2005 (US\$327,812 in 2004).

There is a contract between Perekrestok and VimpelCom dated 25 December 2004 pursuant which Perekrestok collects cash payments at Perekrestok stores from VimpelCom customers for which Perekrestok receives a commission of approximately 3% of the turnover of such payments.

(d) Transactions with CTF Holdings Limited (“CTF”)

Perekrestok received management services for which it paid US\$816,000 in 2005 (US\$781,000 in 2004) from CTF.

(e) Transactions with Golden Telecom

Perekrestok purchased communication services in the amount of US\$433,027 in 2005 and US\$ 143,396 in 2004 from SovIntel.

(f) Other Related Party Transactions

Perekrestok provided a long term loan to Donette Investments Limited for US\$5,250,000 at a 10% interest rate in 2005. The loan matures in 2014.

In 2005 Perekrestok paid US\$458,000 to ZAO “Novye Roznichnye Technologii” for operating these expenses (US\$0 in 2004).

(g) OAO TD GUM

In 2005 OAO TD GUM was excluded from related parties as a member of the senior management of the Group ceased to be affiliated with OAO TD GUM. The following transactions were carried out with OAO TD GUM:

	<u>2005 (US\$)</u>	<u>2004 (US\$)</u>
Operating lease expenses	—	1,420,000

The consolidated financial statements include the following balances with OAO TD GUM:

	<u>2005 (US\$)</u>	<u>2004 (US\$)</u>
Accounts payable	—	159,000

PART IX. TAXATION

The following summary of material United Kingdom and Dutch tax consequences of ownership of GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this document. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to GDR Holders. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a GDR Holder.

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT THEIR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF GDRs, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS OFFERING CIRCULAR, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

(a) United Kingdom Withholding tax and tax credits

As described below under “Netherlands Withholding tax”, when the Company pays dividends it will generally be required to withhold 25 per cent. of the gross amount of the dividends paid, and to account for that amount to the Dutch tax authorities. UK tax resident holders should generally be able to obtain relief at source or a refund of Dutch dividend withholding tax of an amount equal to 10 per cent. of the gross amount of the dividend. The remaining 15 per cent. Dutch withholding tax should generally be allowed as a credit against the UK tax liability of a UK resident holder, but any excess of such Dutch withholding tax over the UK tax payable on the aggregate amount of the dividend and Dutch withholding tax will generally not be refundable.

(b) Netherlands Withholding tax

Dividends distributed by the Company are generally subject to withholding tax imposed by the Netherlands at a rate of 25 per cent. for the purpose of Netherlands dividend withholding tax, taxable profit distributions include, but are not limited to:

- (i) distributions in cash or in kind, deemed and constructive distributions and repayments of paid-in capital not recognised for Netherlands dividend withholding tax purposes;
- (ii) liquidation proceeds, proceeds from the redemption of Shares and GDRs or, as a rule, consideration for the repurchase of Pyaterochka Shares and GDRs by the Company in excess of the average paid-in capital recognised for Netherlands dividend withholding tax purposes;
- (iii) the par value of Pyaterochka Shares and GDRs issued to a Shareholder or GDR Holder or an increase of the par value of Pyaterochka Shares, as the case may be, to the extent that it does not appear that a contribution, recognised for Netherlands dividend withholding tax purposes, has been made or will be made; and
- (iv) partial repayment of paid-in capital, recognised for Netherlands dividend withholding tax purposes, if and to the extent that there are net profits (*zuivere winst*), unless (a) the General Meeting of Shareholders of the Company has resolved in advance to make such repayment and (b) the nominal value of the Pyaterochka Shares and GDRs concerned has been reduced in an equal amount by way of an amendment to the Articles.

A holder of Pyaterochka Shares or GDRs who is resident in a country other than the Netherlands, and if a treaty for avoidance of double taxation is in effect between the Netherlands and such country may, depending on the terms of such double taxation treaty, be eligible for a full or partial exemption from, or refund of, Netherlands dividend withholding tax. A holder may not be entitled to such relief if the holder cannot be considered the beneficial owner of the dividends.

PART X. SUMMARY OF PEREKRESTOK TRANSACTION DOCUMENTS

The following contracts have been or will be entered into in order to implement the Perekrestok Transaction and the Pyaterochka Transaction and are, or may be, material.

1.1 The Perekrestok Acquisition Agreement

(a) Introduction

Under the terms of the Perekrestok Acquisition Agreement between Templeton Strategic Emerging Markets Fund LDC and Luckyworth Limited (the “**Perekrestok Sellers**”) and Pyaterochka, Pyaterochka has agreed to purchase all the issued shares of Perekrestok for cash consideration of US\$300 million (the “**Cash Consideration**”) and the issue to the Perekrestok Sellers of 15,813,253 Pyaterochka Shares. The New Pyaterochka Shares to be issued as consideration pursuant to the Perekrestok Transaction will be issued either to the Depository, who will then issue New GDRs to the Perekrestok Sellers in respect of the New Pyaterochka Shares (provided that Pyaterochka has issued the Prospectus and the UKLA and London Stock Exchange have agreed to Admission prior to closing of the Perekrestok Acquisition Agreement), or (if the Prospectus has not been issued or the UKLA or the London Stock Exchange have not agreed to Admission), directly to the Perekrestok Sellers. The purchase price is not subject to adjustment.

Pyaterochka has a commitment from a syndicate of international banks in respect of the Cash Consideration. The commitment is subject to finalisation of due diligence and finalisation of appropriate financing documentation. If Pyaterochka has not been able to finalise the financing documentation and obtain drawdown of the funds prior to closing of the Perekrestok Transaction, it will issue the Loan Notes to the Perekrestok Sellers for a corresponding amount on or before closing in satisfaction for the Cash Consideration. The terms of the Loan Notes are described in paragraph 1.1(f) of this Part below.

(b) Representations, warranties and indemnities

Pursuant to the terms of the Perekrestok Acquisition Agreement, the Perekrestok Sellers have given certain representations and warranties usual for a transaction of this nature. Pyaterochka has also given certain representations and warranties usual for a transaction of this nature.

Luckyworth has also given an indemnity to Pyaterochka, and Pyaterochka has given an equivalent indemnity to the Perekrestok Sellers, in relation to tax matters and in respect of a breach of certain warranties relating to title, authority, undisclosed liabilities and supplier rebates and discounts.

Claims pursuant to the representations, warranties and indemnities are subject to various limitations that are customary for a transaction of this nature, including limitations that no claim may be brought against the Perekrestok Sellers for breach of the Perekrestok Sellers’ representations, warranties and indemnities or against Pyaterochka for breach of Pyaterochka’s representations, warranties and indemnities unless the aggregate liability for all such claims exceeds US\$20 million.

The maximum potential liability of each of Pyaterochka and the Perekrestok Sellers in respect of all claims under the Perekrestok Acquisition Agreement is limited to US\$68 million, other than in respect of:

- (i) the representations and warranties relating to title to shares and authority and connected parties and undisclosed liabilities, for which the limit is the total amount of the purchase price payable under the Perekrestok Acquisition Agreement; and
- (ii) in the case of Luckyworth and Pyaterochka only, the representations, warranties and indemnities relating to tax, for which the limit is US\$101 million until 31 December 2006.

Claims in respect of the representations, warranties and indemnities given by the Perekrestok Sellers or Pyaterochka under the Perekrestok Acquisition Agreement (other than claims in respect of title, authority, tax matters, connected parties or undisclosed liabilities) may generally only be brought within two years following closing of the Perekrestok Transaction. Claims in respect of title, authority, connected parties or undisclosed liabilities may generally only be brought within 10 years following closing of the Perekrestok Transaction and claims in respect of tax matters may generally only be brought within the limitation period provided under applicable law.

As certain members of the Management Board and Board of Supervisory Directors have a conflict of interest should Pyaterochka bring a claim under the Perekrestok Acquisition Agreement, at the Extraordinary General Meeting to be held on 12 May 2006 it will be proposed to appoint a committee that has exclusive power to represent Pyaterochka if the occasion arises. This committee will consist of Mr. W. G. Rieff, Mr. O. Vysotsky and Ms. A. Li (for so long as each remains a member of the Management Board).

(c) Pre-closing obligations

Prior to closing of the Perekrestok Transaction (or termination of the Perekrestok Acquisition Agreement) Luckyworth has agreed, among other things, to cause the Perekrestok Group to:

- (i) carry on its business as a going concern in the ordinary and usual course substantially as carried out at the date of the Perekrestok Acquisition Agreement, save in so far as it is necessary to implement the 2006 budget of the Perekrestok Group or as otherwise agreed in writing by Pyaterochka, such agreement not to be unreasonably withheld or delayed, or in accordance with the Perekrestok Acquisition Agreement;
- (ii) collaborate with Pyaterochka in relation to all material matters concerning the operation of the Perekrestok Group; and
- (iii) co-operate in providing information and assistance required to support debt financing to be entered into by Pyaterochka, Luckyworth and Cesaro in connection with the Perekrestok Transaction.

Pyaterochka has agreed to use its reasonable endeavours that the Prospectus is issued and that the UKLA and London Stock Exchange agree to Admission prior to closing of the Perekrestok Transaction.

(d) Post-closing obligations

- (i) The parties have agreed to treat as strictly confidential and not disclose or use any information received or obtained as a result of entering into the Perekrestok Acquisition Agreement (or any agreement entered into pursuant to the Perekrestok Acquisition Agreement) which relates to the existence or provisions of, or negotiations relating to, such agreement(s), subject to certain exceptions; and
- (ii) the Perekrestok Sellers have agreed to treat as strictly confidential any information relating to the Perekrestok Group companies, and any business or financial affairs of the Pyaterochka Group companies and Pyaterochka has agreed to treat as strictly confidential any information relating to the Perekrestok Group companies, including, prior to closing, the business or financial affairs of the Perekrestok Sellers' groups.

(e) Conditions precedent to closing

Closing of the Perekrestok Transaction is conditional on a number of matters including:

- (i) the Pyaterochka Agreement becoming unconditional and not being terminated (see paragraph 1.2(e) of this Part below);
- (ii) the passing by Shareholders at a General Meeting of Pyaterochka of resolutions relating to the approval of the Perekrestok Transaction including, among others, the resolution to acquire the shares of Perekrestok and issue the New Pyaterochka Shares;
- (iii) if, prior to closing, Pyaterochka has issued the Prospectus and the UKLA and the London Stock Exchange have agreed to Admission, Pyaterochka and the Perekrestok Sellers delivering certain documents to the Depositary;
- (iv) the due execution and delivery by the Perekrestok Sellers and by Pyaterochka of certain instructions to Fortis Bank (Nederland) N.V. (the "**Settlement Bank**");
- (v) the delivery by Pyaterochka of Pyaterochka Group accounts for the year ended 31 December 2005;
- (vi) the Perekrestok Sellers obtaining the unconditional consent of the Federal Anti-Monopoly Service of the Russian Federation (the "**FAS Consent**") to the acquisition by Pyaterochka of control of the direct or indirect subsidiaries of Perekrestok that have been established under the laws of Russia (excluding Limited Liability Company "Discount Invest" and Limited Liability Company "Retail Torg NK"); and
- (vii) (1) if Pyaterochka has been able to finalise financing documents prior to closing, the due execution and delivery of those finance documents, or (2) if Pyaterochka has not been able to finalise financing documents prior to closing, the delivery of the Loan Notes to the Perekrestok Sellers.

Closing of the Perekrestok Acquisition Agreement will take place at the same time, date and place as the completion of the Pyaterochka Agreement following notification by Luckyworth to Templeton and Pyaterochka.

(f) Loan Notes

If Pyaterochka has not been able to obtain drawdown of the funds required to finance the Cash Consideration prior to closing of the Perekrestok Transaction, it will issue the Loan Notes to the Perekrestok Sellers in satisfaction of the Cash Consideration. The Loan Notes have a term of 60 days and accrue interest at the rate of LIBOR plus 3.75 per cent. The notes are guaranteed by two subsidiaries of Pyaterochka.

(g) Termination

The Perekrestok Acquisition Agreement will automatically terminate with immediate effect on the termination of the Pyaterochka Agreement. If the Perekrestok Acquisition Agreement terminates automatically, Luckyworth will have an obligation to procure payment of any fees which may be payable to Pyaterochka under the Pyaterochka Agreement (see paragraph 1.2 (f) below).

The Perekrestok Acquisition Agreement may be terminated at any time prior to the closing of the Perekrestok Transaction in certain circumstances, including:

(i) by Luckyworth if:

- (1) any of the conditions precedent relating to the passing of Shareholder resolutions and the issue of the New Pyaterochka Shares, or the delivery of documents to the Depositary are not satisfied by Pyaterochka on or before 18 May 2006 or such later date as the Perekrestok Sellers may notify Pyaterochka in writing in their sole discretion but in any event no later than 22 June 2006 (the “**Long Stop Date**”);
- (2) neither the condition precedent relating to the delivery of finance documents or the issue of the Loan Notes has been satisfied by Pyaterochka or (in the case of the Loan Notes only) waived by Luckyworth on or before the Long Stop Date;
- (3) the condition precedent relating to the FAS Consent has not been satisfied by Pyaterochka or waived by Luckyworth on or before the Long Stop Date; or
- (4) the condition precedent relating to the delivery of the Pyaterochka Group accounts for the year ended 31 December 2005 has not been satisfied by Pyaterochka or waived by Luckyworth on or before the Long Stop Date.

(ii) by Pyaterochka if Luckyworth fails to transfer the Shares to Pyaterochka.

In addition, Pyaterochka and the Perekrestok Sellers are entitled to terminate the Perekrestok Acquisition Agreement prior to closing of the Perekrestok Transaction in certain circumstances if a force majeure event occurs.

(h) Governing law

The Perekrestok Acquisition Agreement is governed by English law and any dispute in connection with it is to be settled by arbitration in London.

1.2 Sale and purchase agreement relating to the acquisition by Alfa of a majority shareholding in Pyaterochka (the “Pyaterochka Agreement”)

(a) Introduction

Under the terms of the sale and purchase agreement between Marie-Carla Corporation N.V. and Tayleforth N.V. (the “**Pyaterochka Sellers**”) and Cesaro Holdings Limited (“**Cesaro**”) and Luckyworth Limited (“**Luckyworth**”) (the “**Pyaterochka Agreement**”), Alfa Group have purchased 2,467,917 Pyaterochka shares from the Pyaterochka Sellers for US\$200 million and have agreed to purchase up to a further 13,891,960 Pyaterochka Shares from the Pyaterochka Sellers, subject to certain adjustments, for cash consideration of US\$978 million of which 12,068,115 Pyaterochka Shares will be transferred to Cesaro and Luckyworth at completion (the “**Pyaterochka Acquisition**”).

If Pyaterochka has not been able to obtain drawdown of the Cash Consideration to be paid under the Perekrestok Acquisition Agreement by closing and has issued the Loan Notes, the purchase price payable by Alfa Group at closing under the Pyaterochka Agreement will be payable as to US\$878 million in cash and US\$300 million by delivery to the Pyaterochka Sellers by or on behalf of Alfa Group of the Loan Notes.

In addition to the sale shares described above, the parties have agreed that two share tranches one of 2% taken from the sale shares transferred to Cesaro and Luckyworth at completion, and the other of 3.37% of the share capital of Pyaterochka and held by Tayleforth respectively will be transferred to the Depository to be held pursuant to the Settlement and Adjustment Agreement. Following closing of the Pyaterochka Transaction, special purpose accounts for the year ended 31 December 2006 will be prepared for both Pyaterochka and Perekrestok on a stand-alone basis and, based on the net sales and EBITDA figures in those accounts, the 3.37% stake and the 2% stake will each be transferred to either the Pyaterochka Sellers or to Luckyworth and Cesaro.

(b) Representations, warranties and indemnities

Pursuant to the terms of the Pyaterochka Agreement, the Pyaterochka Sellers have given certain representations and warranties usual for a transaction of this nature. Alfa Group has also given certain representations and warranties usual for a transaction of this nature.

The Pyaterochka Sellers have also given an indemnity to Alfa Group in relation to tax matters and in respect of a breach of certain warranties relating to title, authority, undisclosed liabilities and supplier rebates and discounts.

Claims pursuant to the warranties are subject to various limitations that are customary for a transaction of this nature, including limitations that no claim may be brought against the Pyaterochka Sellers for breach of the Pyaterochka Sellers' representations and warranties unless the aggregate liability for all such claims exceeds US\$20 million.

The maximum potential liability of the Pyaterochka Sellers in respect of all warranty claims under the Pyaterochka Agreement is limited to US\$68 million other than in respect of:

- (i) the warranties relating to title to the shares in Pyaterochka, and the authority and capacity of the Pyaterochka Sellers and connected parties and undisclosed liabilities, the full disclosure of information by the Pyaterochka Sellers for which the limit is the total amount of the purchase price payable under the Pyaterochka Agreement; and
- (ii) the warranties relating to tax, for which the limit is US\$101 million until 31 December 2006.

Claims in respect of the Pyaterochka Sellers' representations and warranties (other than claims in respect of title, authority, tax matters, connected parties or undisclosed liabilities) may generally only be brought within two years following closing of the Pyaterochka Transaction. Claims in respect of title, authority, connected parties and undisclosed liabilities may only be brought within 10 years following closing of the Pyaterochka Transaction and claims in respect of tax matters may generally only be brought within the limitation period provided under applicable law.

(c) Pre-closing obligations

Prior to closing of the Pyaterochka Transaction (or termination of the Pyaterochka Agreement):

- (i) the Pyaterochka Sellers have agreed, among other things, to cause the Pyaterochka Group to:
 - (1) carry on its business as a going concern in the usual course substantially as carried out at the date of the Pyaterochka Agreement, save in so far as it is necessary to implement the budgets of the Pyaterochka Group as approved by the Board of Supervisory Directors or as otherwise agreed in writing by Alfa Group (such agreement not to be unreasonably withheld or delayed); and
 - (2) collaborate with Alfa Group in relation to all material matters concerning the operation of the Pyaterochka Group;
 - (3) continue the programme of registration of leases of immovable property used by the Pyaterochka Group;
 - (4) assist with the preparation of the Prospectus and the convening of the EGM of Pyaterochka;
 - (5) co-operate in providing information and assistance required to support debt financing to be entered into by Alfa Group and Pyaterochka in connection with the Perekrestok Transaction;

None of the pre-closing obligations prevent the disposal of specified excluded assets by the Pyaterochka Group.

(d) Post-closing obligations

The parties have agreed certain undertakings that will apply following closing of the Pyaterochka Transaction. These include that:

- (i) neither the Pyaterochka Sellers nor any member of their group will:
 - (1) for a period of three years commencing on closing of the Pyaterochka Agreement (or such shorter period as may be required by law), be engaged in any business in the Russian Federation or Ukraine which is of the same or similar type to the business of any Pyaterochka Group company as carried on at the date of the Pyaterochka Agreement which is or is likely to be in competition with that business, except for that of Formata, any interest the Pyaterochka Sellers may acquire in a franchisee of Pyaterochka with Alfa Group's written consent, or any portfolio investment of 10 per cent. or less the Pyaterochka Sellers may hold in the equity of any competing entity;
 - (2) while the shared services agreements with Formata group companies remain in effect, solicit the custom of any person, firm or company who has within two years prior to closing of the Pyaterochka Agreement been a regular counterparty to any Pyaterochka Group company in contracts relating to the business of the Pyaterochka Group; or
 - (3) for a period of two years commencing on closing of the Pyaterochka Agreement (or such shorter period as may be required by law), seek to hire any person employed by the Pyaterochka Group at the date of the Pyaterochka Agreement.
- (ii) neither Luckyworth nor Cesaro nor any member of their groups will:
 - (1) for a period of three years commencing on closing of the Pyaterochka Agreement (or such shorter period as may be required by law), be engaged in or be economically interested in any business in the Russian Federation or Ukraine which is of the same or similar type to the business of Pyaterochka as carried on at the date of the Pyaterochka Agreement and which is or is likely to be in competition with the business of Pyaterochka; and
 - (2) for a period of two years commencing on closing of the Pyaterochka Agreement (or such shorter period as may be required by law) seek to hire any person employed by the Formata group at the date of the Pyaterochka Agreement.
- (iii) the parties have agreed to treat as strictly confidential and not disclose or use any information received or obtained as a result of entering into the Pyaterochka Agreement (or any agreement entered into pursuant to the Pyaterochka Agreement) which relates to the existence or provisions of, or negotiations relating to, such agreement(s), subject to certain exceptions.
- (iv) the Pyaterochka Sellers have agreed to treat as strictly confidential any information relating to the Pyaterochka Group companies, and any business or financial affairs of the Alfa Group companies and Luckyworth and Cesaro have agreed to treat as strictly confidential any information relating to the business or financial affairs of the Pyaterochka Sellers' respective groups, including the Pyaterochka Group companies.

(e) Conditions precedent to closing

Closing of the Pyaterochka Transaction is conditional on a number of matters including:

- (i) the Perekrestok Acquisition Agreement becoming unconditional and not being terminated (see paragraph 1.1(e) and 1.1(g) above);
- (ii) the execution and delivery by the Pyaterochka Sellers of a share transfer agreement pursuant to which the legal title to the Pyaterochka Shares being sold under the Pyaterochka Agreement and a separate 3.37% stake in Pyaterochka is transferred to the Depositary;
- (iii) the execution and delivery by the Pyaterochka Sellers, and by Luckyworth and Cesaro, of various transaction documents;
- (iv) the execution and delivery by the Pyaterochka Sellers, and by Luckyworth and Cesaro, of instructions required under the Settlement and Adjustment Agreement;
- (v) delivery by the Pyaterochka Sellers of Pyaterochka Group accounts for the year ended 31 December 2005;

- (vi) Luckyworth and Cesaro obtaining the FAS Consent in relation to the acquisition of control of the direct or indirect subsidiaries of Pyaterochka that have been established under the laws of Russia (excluding Limited Liability Company “Discount Invest” and Limited Liability Company “Retail Torg NK”), and delivering a certified copy of the FAS Consent to the Pyaterochka Sellers; and
- (vii) the Call Option Agreement and the shared services agreements between Pyaterochka Group companies and Formata group companies remaining in effect and not having been amended at closing of the Pyaterochka Agreement.

(f) Termination and break fees

The Pyaterochka Agreement may be terminated at any time prior to the closing of the Pyaterochka Transaction in certain circumstances.

The Pyaterochka Agreement may be terminated by Luckyworth and Cesaro if:

- (i) the condition relating to the execution of a share transfer agreement for the transfer of Pyaterochka Shares to the Depositary has not been satisfied by the Pyaterochka Sellers or waived by Luckyworth and Cesaro on or before 18 May 2006 or such later date as Luckyworth and Cesaro may notify the other parties in writing but in any event no later than 22 June 2006 (the “**Pyaterochka Long Stop Date**”);
- (ii) the condition precedent relating to the FAS Consent has not been satisfied or waived on or before the Pyaterochka Long Stop Date;
- (iii) the Perekrestok Acquisition Agreement is terminated as a result of a failure by Pyaterochka to procure the issue of the New Pyaterochka Shares to the Depositary
- (iv) the Perekrestok Acquisition Agreement is terminated as a result of the FAS Consent required under that document not being obtained;
- (v) if certain beneficial shareholders in the Pyaterochka Sellers vote against Pyaterochka Shareholder resolutions to be passed for the purposes of the Perekrestok Transaction on or before the Pyaterochka Long Stop Date;
- (vi) the Perekrestok Acquisition Agreement is terminated as a result of Pyaterochka failing to issue the Loan Notes (where required to do so) on or before the Long Stop Date;
- (vii) Pyaterochka is unable to obtain drawdown of the Cash Consideration under the Perekrestok Acquisition Agreement by closing of the Pyaterochka Agreement as a result of a material adverse change in the Pyaterochka Group business; or
- (viii) the advance tranche of 2,467,917 Pyaterochka Shares have not been transferred to Luckyworth and Cesaro within three business days of the Pyaterochka Agreement being signed.

If the Pyaterochka Agreement is terminated by Luckyworth and Cesaro as a result of an event described in paragraph (i), (iii), (v), (vi) or (viii) above, the Pyaterochka Sellers must pay to CTF Holdings Limited (“**CTF**”) a significant break fee.

If the Pyaterochka Agreement is terminated by Luckyworth and Cesaro as a result of an event described in paragraph (ii) or (iv) above, Cesaro will (on behalf of CTF) pay a break fee to Tayleforth N.V. and a break fee of US\$2 million to Pyaterochka.

The Pyaterochka Agreement may be terminated by the Pyaterochka Sellers if:

- (i) Luckyworth and Cesaro, pursuant to a proxy granted by the Pyaterochka Sellers, fail to attend and vote at the Pyaterochka EGM convened to approve the transactions contemplated in the Perekrestok Acquisition Agreement, or vote against such transactions;
- (ii) the Perekrestok Acquisition Agreement is terminated as a result of Luckyworth failing to deliver the Perekrestok shares to Pyaterochka;
- (iii) the Loan Notes are issued under the Perekrestok Acquisition Agreement and Luckyworth and Cesaro fail to either (1) deliver the Loan Notes to the Pyaterochka Sellers as required under the Pyaterochka Agreement or (2) credit the settlement account with the balance of the purchase price (US\$678 million);

- (iv) if Pyaterochka has been able to obtain financing for the purchase price payable under the Perekrestok Acquisition Agreement and the Loan Notes have not been issued, Luckyworth and Cesaro fail to credit the settlement account with the balance of the purchase price payable under the Pyaterochka Agreement (US\$978 million); or
- (v) the US\$200 million consideration for the advance tranche of 2,467,917 Pyaterochka Shares has not been transferred to the Pyaterochka Sellers within three business days of the Pyaterochka Agreement being signed.

If the Pyaterochka Agreement is terminated by the Pyaterochka Sellers for any of the above reasons, except in certain circumstances Cesaro will (on behalf of CTF) pay significant break fees to Tayleforth N.V. and break fees of US\$15 million to Pyaterochka.

(g) Governing law

The Pyaterochka Agreement is governed by English law and any dispute in connection with it is to be settled by arbitration in London.

1.3 Finance Documents

Finance documents

Pyaterochka has entered into a commitment letter with HSBC Bank plc, West LB AG, London Branch, ABN Amro Bank N.V., Raffeisen Zentralbank Osterreich AG and ZAO Raffeisenbank Austria (“**Lead Arrangers**”) in relation to the provision of two finance facilities. The first facility, in an amount of US\$450 million, is to be used for Pyaterochka’s financing requirements under the Perekrestok Transaction and to refinance existing debt of the Perekrestok Group. The second facility, in the amount of US\$350 million, is to be used for general corporate purposes, including expansion of the Enlarged Group and capital expenditure. Both facilities have a three year term.

Under the commitment letter, the Lead Arrangers are appointed as exclusive arrangers and underwriters of the two facilities, and as bookrunners in connection with the syndication of the facilities. The offer made by the Lead Arrangers under the commitment letter is subject to a number of conditions, including execution and delivery of satisfactory facility documentation by 20 July 2006 (or a later date agreed with the Lead Arrangers). The offer terminates if the Lead Arrangers notify Pyaterochka that, in their opinion, any of these conditions have not been satisfied or that a member of the Pyaterochka Group has failed to disclose relevant information to them. The offer will also terminate on 20 July 2006 if Closing has not occurred and facility documents have not been entered into by that date. Pyaterochka must pay an arrangement fee and other fees in respect of the finance facilities.

Pyaterochka’s obligations in respect of the finance facilities will be guaranteed by all material subsidiaries of the Pyaterochka Group.

1.4 Call Option Agreement

Under the terms of the Call Option Agreement between Overture Corporation N.V. and Puritani Corporation N.V. (the “**Grantors**”) and Pyaterochka, the Grantors agree to grant a call option to Pyaterochka over the Grantor’s holding of the entire issued capital of Formata Holding B.V. (“**Formata**”). The call option is conditional on completion occurring under the Pyaterochka Agreement.

The call option can be exercised by Pyaterochka during the period from 1 January 2008 to the later of (i) 1 July 2008 or (ii) three months after Pyaterochka is provided with audited accounts for the Formata group companies for the year ended 31 December 2007. The amount payable by Pyaterochka on exercise of the call option is the aggregate of:

- (a) the lesser of:
 - (i) 1.1 x consolidated net sales of the Formata group; and
 - (ii) 14.5 x the greater of (1) EBITDA or (2) 5% consolidated net sales of the Formata group;
- (b) the value of the Formata group's land and real estate; and
- (c) the aggregate amount of Formata group's net debt.

The option price must be made up of at least 75% cash with the balance in the form of newly issued Pyaterochka Shares, unless Pyaterochka Shares or GDRs are not listed on a recognised stock exchange at the time, in which case the amount must be paid entirely in cash.

The acquisition of the Formata shares under the Call Option Agreement is conditional on Pyaterochka completing satisfactory due diligence in respect of the Formata group companies and receiving any required regulatory, shareholder or third party approval or consent to the acquisition.

The Grantors may terminate the Call Option Agreement if:

- (a) certain services agreements between Pyaterochka group companies and Formata group companies are terminated, repudiated or revoked;
- (b) Cesaro or Luckyworth breach their obligations under certain provisions of the Sale and Purchase Agreement; or
- (c) the option price is not paid to the Grantors before the expiry of the period during which the call option can be exercised.

1.5 Guarantees

The following guarantees have been given in connection with the Perekrestok Transaction and Pyaterochka Transaction;

- (a) guarantee given by CTF in favour of Pyaterochka, in respect of certain obligations of Luckyworth under the Perekrestok Acquisition Agreement;
- (b) guarantee given by CTF in favour of the Pyaterochka Sellers, in respect of certain obligations of Luckyworth under the Pyaterochka Agreement; and
- (c) guarantee given by Tatyana Franous, Alexander Girda, Andrei Rogachev and Igor Vidiaev in favour of:
 - (i) Luckyworth and Cesaro, in respect of the obligations of the Pyaterochka Sellers under the Pyaterochka Agreement; and
 - (ii) Pyaterochka, in respect of the Grantors' obligations under the Call Option Agreement.

1.6 Shared Services Agreements

In connection with the Perekrestok Transaction, the following changes have been effected to shared services agreements (agreements for the provision of personnel on a contractor basis) between Pyaterochka Group companies and Formata group companies:

- (a) "OOO Rusel-M" (a company in the Formata group) and Agroaspekt (a company in the Pyaterochka Group) have entered into an agreement to amend the shared services agreement between those parties so as to, among other things, extend the term of the shared services agreement to 15 October 2008;
- (b) "OOO Rusel" (a company in the Formata group) and Agrotorg (a company in the Pyaterochka Group) have entered into an agreement to amend the shared services agreement between those parties so as to, among other things, extend the term of the shared services agreement to 15 October 2008; and
- (c) Pyaterochka and Formata have entered into a termination agreement to terminate the shared services agreement between those parties.

PART XI. RUSSIAN GROCERY RETAIL INDUSTRY

Information relating to the Russian Grocery Retail Industry is contained on pages 28 to 31 of the IPO Prospectus and incorporated by reference into this document.

PART XII. EXCHANGE RATE INFORMATION

The official currency of Russia, where the majority of the Pyaterochka Group's assets and operations is located, is the Rouble. Pyaterochka's Financial Statements are presented in US dollars. As a result, fluctuations in the value of the Rouble against the US dollar may affect the Pyaterochka Group's results when translated into US dollars. See "Risk Factors – Risks Relating to Russia – Economic risks – Currency and exchange rate fluctuations may adversely affect the Enlarged Group's business and financial condition and the price and liquidity of GDRs". Moreover, as a result of legislation in force in Russia relating to investments by foreign companies, Russian regulators may impose from time to time certain currency control limitations on the ability of the Pyaterochka Group's companies to convert Roubles into US dollars or other hard currencies or to convert US dollars or other hard currencies into Roubles. See "Risk Factors – Risks Relating to the Pyaterochka Shares and GDRs – The Company's ability to pay dividends and to service its debt obligations depends primarily upon receipt of sufficient funds from its subsidiaries".

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by the Central Bank. Fluctuations in the exchange rates between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

Year	High	Low	Average⁽¹⁾	Period End
2002	31.86	30.14	31.39	31.78
2003	31.89	29.25	30.67	29.45
2004	29.45	27.75	28.73	27.75
2005	29.00	27.46	28.23	28.79
2006 (through to 20 April)	28.48	27.46	28.04	27.46

Note:

- (1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

PART XIII. ADDITIONAL INFORMATION

1.1 Subsidiaries of the Company

The details of the Operating Companies and of Speak Global are set out in the table below:

Subsidiary	Country	Company's shareholding	Activities	Address of registered office
Agrotorg Company Limited	Russia	100	Retail operations in St. Petersburg and owner of several trademarks in Kazakhstan and Franchisor in all franchise agreements	90/92 Nevsky prospect, St. Petersburg 19102 Russia
Ceizer Joint Stock Company	Russia	100	Property ownership and letting in St. Petersburg, owner of a number of trademarks in Russia, "П'ятірочка" trademark in Ukraine and Pyaterochka trademark in Belarus	Lit. A pom. 3N 13 Tambovskaya ul. St. Petersburg 192007 Russia
Agro-Star Joint Stock Company	Russia	100	Logistics (St. Petersburg)	8 Predportovaya ul. St. Petersburg 196240 Russia
Agroaspekt Company Limited	Russia	100	Retail operations (Moscow)	60 Altufievskoye chaussee Moscow 127562 Russia
RemtransAVTO Joint Stock Company	Russia	100	Property ownership and letting (Moscow)	11 Amundsena ul. Moscow 129343 Russia
Agro-AVTO Company Limited	Russia	100	Logistics (Moscow)	27 Leningradsky prospect Moscow 125040 Russia
Speak Global Ltd.	Cyprus	100	Owner of Pyaterochka trademark in Russia and has filed documents for	Arch. Makariou 111 62 Xenios Commercial Centre 6th Floor Flat/office 603 P.C. 1076 Nicosia Cyprus

The Pyaterochka Group also includes the following wholly-owned subsidiaries of the Operating Companies and Speak Global:

Subsidiary	Country	Shareholder	Activities
ZAO Kids Playground Development	Russia	Ceizer Joint Stock Company	Real estate operations
ZAO Vertikal K	Russia	Ceizer Joint Stock Company	Lease of real estate
OOO Elikcon	Russia	Ceizer Joint Stock Company	Lease of real estate
OOO Atlant Trading	Russia	Ceizer Joint Stock Company	Lease of real estate
OOO Lider Group	Russia	Ceizer Joint Stock Company	Lease of real estate
OOO Ural Retail	Russia	Agro-Star Joint Stock Company	Retail operations
OOO Legion	Russia	Agro-Star Joint Stock Company	Lease of real estate
OOO Raglan	Russia	Ceizer Joint Stock Company	Real estate operations
OOO Pyaterochka Finance	Russia	Agrotorg Company Limited	Bond issuer
OOO Beta Estate	Russia	Speak Global Ltd	Real estate owner
OOO Vinsteyt	Russia	Speak Global Ltd	Lease of real estate
OOO Rent Service	Russia	Speak Global Ltd	Lease of real estate
OOO Alians-Service	Russia	Speak Global Ltd	Real estate owner
OOO Moris	Russia	Speak Global Ltd	Real estate owner
OOO Belveg	Russia	Speak Global Ltd	Real estate owner
OOO Mega-M	Russia	Speak Global Ltd	Real estate owner
OOO Kraun Development	Russia	Speak Global Ltd	Lease of real estate
OOO Onitex	Russia	Speak Global Ltd	Real estate owner
OOO SRT	Russia	Speak Global Ltd	Real estate owner
OOO Pyaterochka 2005	Russia	Rentrans AVTO Joint Stock Company	Lease of real estate
OOO Opttorg	Russia	Rentrans AVTO Joint Stock Company	Real estate owner
OOO Rikardi-Met	Russia	Rentrans AVTO Joint Stock Company	Lease of real estate
ZAO Telprice	Russia	Rentrans AVTO Joint Stock Company	Real estate owner
OOO Orient Nedvizhimost	Russia	Rentrans AVTO Joint Stock Company	Lease of real estate
OOO Fill	Russia	Rentrans AVTO Joint Stock Company	Lease of real estate

1.2 Share Capital

At the date of this document, the Company's authorised share capital consists of 190 million ordinary Shares with a nominal value of €1.00 per share and the current issued share capital consists of 38,306,785 issued and outstanding ordinary Pyaterochka Shares with a nominal value of €1.00 per share, all of which are fully paid (ISIN number US7470712073). The Pyaterochka Shares underlying the New GDRs will be created in accordance with the provisions of the Dutch Civil Code.

(a) Changes in share capital

As at 31 December 2002, the Company's authorised share capital consisted of 4,000 ordinary shares with a nominal value of €454. The issued share capital consisted of 862 issued and outstanding ordinary shares with a nominal value of €454 per share, all of which were fully paid up.

In accordance with the provisions of Dutch law the Company revalued its investments in the Russian subsidiaries at fair value for statutory purposes. With effect from 29 December 2003, the authorised share capital of the Company (denominated in Euro) was increased to €190,000,000 and was split into 190,000,000 ordinary Pyaterochka Shares with a par value of €1.00 each. The other reserves resulting from the revaluation of investments were used to issue 37,915,437 ordinary Pyaterochka Shares with a par value of €1.00 each. For purposes of the Pyaterochka Financial Statements, the increase of the issued and paid-in share capital of the Company was recorded as a capitalisation of retained earnings as no consideration was received for the issued ordinary Pyaterochka Shares.

For further information on the changes in the Company's share capital for the three years ended 31 December 2005, see the Consolidated Statements of Changes in Shareholders' Equity for the Years ended 31 December 2005, 2004 and 2003" on page 75 of this document.

Save as disclosed in this section and on page 75 of this document, there has been no change in the amount of the issued share capital of the Company and no material change in the capital of any member of the Pyaterochka Group in the three years ended 31 December 2005.

(b) Form and transfer of Ordinary Shares

The Pyaterochka Shares are in registered form. They are available in the form of an entry in the share register of the Company without the issuance of a share certificate.

Subject to Dutch law and the Articles, shares in registered form can only be transferred by a notarial written deed of transfer executed before a civil law notary residing in the Netherlands. However, if the shares or depository receipts of shares are listed, or if there are well founded expectations that the shares or depository receipts of shares will be listed shortly, a private written deed will suffice. To ensure the effectiveness of the transfer vis-à-vis the Company, the transfer must be acknowledged by the Company, or the deed of transfer must be served on the Company, all in accordance with the provisions of Dutch law and the Articles.

(c) Objects

Pursuant to Article 3 of the Articles, the objects of the Company include, among others, the participation, management and supervision of enterprises, businesses and companies, the finance of businesses and companies, the raising of funds, including the issue of bonds and the provision of guarantees.

(d) Issue of Pyaterochka Shares and pre-emption rights

Pyaterochka Shares may be issued pursuant to a resolution adopted by the General Meeting or by another corporate body of the Company designated to do so by a resolution of the General Meeting for a specified period, not exceeding five years. If another corporate body is delegated the authority to issue Pyaterochka Shares, the resolution pursuant to which such delegation is qualified must specify the number of Pyaterochka Shares that may be issued and the period during which the delegation will be effective. The delegation may be extended for periods not exceeding five years. Unless specified otherwise, the delegation is irrevocable. As long as another corporate body is authorised to issue Pyaterochka Shares, the General Meeting may not resolve to issue Pyaterochka Shares. When resolving to issue Pyaterochka Shares, the General Meeting or the designated corporate body must determine the price and other terms and conditions of issue. Unless permitted by Dutch law, Pyaterochka Shares may not be issued below their nominal value.

Subject to Dutch law and the Articles, shareholders have non-transferable pre-emption rights to subscribe to Pyaterochka Shares upon the issue of new Pyaterochka Shares in proportion to the aggregate amount of Pyaterochka Shares they hold. Such pre-emption rights also apply to the issuance of Pyaterochka Shares for a non-cash contribution. According to Dutch law and the Articles, this pre-emption right does not apply in respect of any issuance of Pyaterochka Shares to the employees of the Company or employees of a group company (*groepsmaatschappij*) of the Company.

The Company must announce any issue of Pyaterochka Shares with pre-emption rights for shareholders and the period during which these rights can be exercised in the Dutch Official Gazette (*Staatscourant*) and in a Dutch daily newspaper with nation-wide distribution unless all Pyaterochka Shares are registered shares and all Shareholders have been notified in writing at the designated address of such Shareholders. The period during which pre-emption rights can be exercised must be at least two weeks starting from the date on which the issue is announced in the Dutch Official Gazette (*Staatscourant*). Pre-emption rights will expire if they are not exercised within the exercise period.

Pre-emption rights may be restricted or excluded by resolution of the General Meeting. The proposal for such a resolution must contain the reasons for taking this decision and the proposed issue price for the Pyaterochka Shares. If another corporate body of the Company has been delegated the authority to issue Pyaterochka Shares, the General Meeting may authorise such corporate body to restrict or exclude pre-emption rights for a period of

no more than five years. This period may be extended for successive periods not exceeding five years. If less than one half of the issued capital is represented at the General Meeting, a resolution to either restrict or exclude pre-emption rights or to delegate this authority to another corporate body of the Company, requires a majority of at least two-thirds of the votes cast to be adopted. Unless the authorisation provides otherwise, it cannot be revoked.

The authority to issue Pyaterochka Shares and to grant rights to subscribe for Pyaterochka Shares, and the authority to exclude the pre-emption rights of Shareholders in connection therewith, has not, as at the date of this document, been delegated to another corporate body of the Company.

(e) Repurchase by the Company of its own Pyaterochka Shares

Subject to authorisation by the General Meeting and the provisions of Dutch law and the Articles, the Management Board may cause the Company to acquire fully paid up Pyaterochka Shares in its own share capital or depository receipts thereof, provided that (i) the Company's equity minus the acquisition price is not less than the aggregate amount of its issued share capital and the reserves which must be maintained pursuant to Dutch law and the Articles; and (ii) the aggregate nominal value of the Pyaterochka Shares or depository receipts thereof in its share capital acquired, held or held in pledge by the Company or by a subsidiary will not exceed one-tenth of the Company's issued share capital. These restrictions do not apply to the acquisition of Pyaterochka Shares for free.

The Management Board shall be authorised by the General Meeting, for a maximum period of 18 months, in order to make acquisition of Pyaterochka Shares in the Company's share capital possible. In its resolution, the General Meeting must provide the number of Pyaterochka Shares that the Company may acquire in its own share capital, how these Pyaterochka Shares may be acquired and the price range to be observed. The disposal of Pyaterochka Shares or depository receipts thereof held by the Company shall be effected pursuant to a resolution of the General Meeting, in so far as the General Meeting has not designated another corporate body of the Company in this respect. Such resolution shall also stipulate the conditions of the disposal.

Pyaterochka Shares held by the Company or a subsidiary are not taken into account for determining whether a quorum is present at a General Meeting and may not be voted on.

The Management Board has not been authorised to acquire Pyaterochka Shares in the Company's own capital.

(f) Capital reduction

The General Meeting may resolve to reduce the issued share capital by cancelling Pyaterochka Shares or by reducing the nominal value of Pyaterochka Shares by an amendment to the Articles. The notice of the General Meeting at which any resolution to reduce the issued share capital is proposed, must mention the purpose of the capital reduction and the manner in which it is to be achieved. Dutch law and the Articles contain detailed provisions regarding (partial) repayment of Pyaterochka Shares, release from the obligation to pay up Pyaterochka Shares and cancellation of Pyaterochka Shares.

The notice of the General Meeting at which any resolution to reduce the issued share capital shall be proposed, shall mention the purpose of the capital reduction and the manner in which it is to be achieved.

(g) General meeting

General Meetings are held in Amsterdam or Haarlemmermeer (Schiphol Airport). Annual General Meetings must be held within six months after the end of the financial year. Notice of a General Meeting must be given not less than the fifteenth day before the date of the meeting. The agenda for the annual General Meeting must contain, among other items placed on the agenda in accordance with Dutch law and the Articles, the following points for discussion:

- (i) annual report;
- (ii) adoption of the annual accounts;
- (iii) reservation and dividend policy;

- (iv) appropriation of accrued profits;
- (v) substantial changes to the Company's corporate governance structure or substantial changes to compliance with the Dutch Corporate Governance Code;
- (vi) granting of discharge to members of the Management Board for their management during the financial year concerned and to the members of the Board of Supervisory Directors for their supervision thereon;
- (vii) appointment of the Company's certified auditor for the consecutive financial year; and
- (viii) other proposals brought up for discussion by the Management Board or the Board of Supervisory Directors, or by shareholders or holders of depository receipts of Pyaterochka Shares.

The agenda contains the items selected by the person(s) convening the General Meeting. In addition, unless this would violate an important interest of the Company, the agenda contains the items requested in writing by one or more Shareholders, or other persons entitled to attend General Meetings, alone or together representing at least one per cent. of the issued share capital or representing the amount of market capitalisation set by law (at present being €50 million). Such request must have been received by the Company not later than on the sixtieth day prior to that of the meeting.

Extraordinary General Meetings must be convened whenever the Management Board or the Board of Supervisory Directors deems such necessary. In addition, Shareholders who individually or together hold at least one tenth of the total issued capital, may, stating the subjects to be discussed, request the Management Board or the Board of Supervisory Directors to convene an Extraordinary General Meeting. If the Management Board or the Board of Supervisory Directors has not convened a meeting within four weeks in such a manner that the meeting can be held within six weeks after the request, the persons who made the request shall be authorised to convene a meeting themselves, subject to the applicable Dutch Civil Code provisions.

Unless the Board of Supervisory Directors has designated another person to act as chairman of a General Meeting, the General Meetings shall be presided over by the chairman of the Board of Supervisory Directors or, in his absence, by the deputy chairman of the Board of Supervisory Directors; in the event that the latter is also absent, the members of the Board of Supervisory Directors present shall elect a chairman from this number. If the chairman has not been appointed in accordance with the previous sentence, the meeting shall itself choose a chairman. Until that moment a member of the Management Board shall act as chairman and in the absence of such a member the eldest person present at the meeting shall act as chairman.

All Shareholders and other persons entitled pursuant to Dutch law or the Articles to attend and/or vote at General Meetings are entitled to attend General Meetings, to address the General Meeting and if applicable to vote. The chairman of the General Meeting shall decide on the admittance of persons other than those mentioned in the previous sentence. Shareholders may be represented at General Meetings by written proxy duly executed and legalised in accordance with the laws of the country where the proxy is issued. Subject to the prior approval of the Board of Supervisory Directors, the Management Board shall be authorised to set a record date as referred to in article 2:119 of the Dutch Civil Code.

Members of the Management Board and the Board of Supervisory Directors are authorised to attend General Meetings and have the right to give advice in the General Meeting.

Resolutions of Shareholders may also be adopted in writing without recourse to a General Meeting, provided they are adopted by unanimous vote representing the entire issued capital.

The Pyaterochka Shares may be converted into shares of another class by means of amendment of the Articles. In accordance with Dutch law and the Articles, the General Meeting is authorised to adopt a resolution to amend the Articles. Upon conversion no additional obligations may be imposed upon holders of Pyaterochka Shares against their will. All holders of Pyaterochka Shares or of depository receipts of the same class must be treated equally upon conversion.

(h) Voting rights

Each Pyaterochka Share confers the right to cast one vote at the General Meeting. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of The Netherlands or foreign owners to hold or vote the Pyaterochka Shares, other than those also imposed on residents. In order to be validly passed, resolutions

need to be adopted by at least a simple majority of the votes cast in a meeting where more than half of the issued share capital is present or represented, provided that such majority represents at least half of the issued share capital of the Company, unless Dutch law or the Articles prescribe a greater majority.

If in an election of persons a majority is not obtained, a second vote shall be taken. If votes in such second vote are equal in an election between two persons, it shall be decided by lot who is elected. If there is a tie of votes in a vote other than a vote for the election of persons, the proposal is thus rejected. The chairman's decision at the General Meeting on the result of a vote shall be final and binding.

(i) Dividend rights

After adoption of the annual accounts which show that a distribution of profits is allowed, the General Meeting, on proposal of the Board of Supervisory Directors, shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

The Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves to be maintained pursuant to Dutch law. Distribution of profits shall take place after the adoption of the annual accounts. A loss may only be applied against reserves maintained pursuant to Dutch law to the extent permitted by Dutch law. On proposal of the Board of Supervisory Directors, the General Meeting may resolve to pay an interim dividend, subject to the provisions of Dutch law to the extent that its equity exceeds the total amount of its issued share capital and the reserves to be maintained pursuant to Dutch law, as appears from interim financial statements to be signed by all members of the Management Board. On proposal of the Board of Supervisory Directors, the General Meeting may, subject to the provisions of Dutch law, resolve to make payments to the charge of any reserve which need not be maintained by virtue of the law.

A claim of a Shareholder for payment of a dividend must be made within five years of the relevant payment date otherwise it will lapse and the Company is entitled to retain the dividend.

(j) Statutory financial statements and statutory auditor

The financial year of the Company coincides with the calendar year. The Management Board must prepare the annual accounts within five months after the end of the financial year. The five-month period may be extended by not more than six months by the General Meeting for exceptional circumstances. The annual accounts must be made available for inspection by Shareholders at the offices of the Company within the same period.

Subject to Dutch law, the annual accounts must be accompanied by an auditors' certificate, an annual report and certain other mandatory information. The General Meeting shall appoint an accountant to audit the annual accounts. The General Meeting shall adopt the annual accounts.

Determination of, without limitation, such matters as the amount of profit and loss, the size of the distributable reserves, and whether it is allowed to repurchase Ordinary Shares or depository receipts issued for Ordinary Shares, must be made on the basis of the Company's statutory annual accounts prepared using IFRS.

(k) Merger, demerger, amendment of articles, dissolution

When a proposal of the Management Board to merge, demerge, amend the Articles or to dissolve the Company is to be made to the General Meeting, this must be mentioned in the notification of the General Meeting and if it regards an amendment of the Articles, a copy of the proposal including the text of the proposed amendment must at the same time be deposited and held available at the Company's office for inspection by the shareholders and the holders of depository receipts of Pyaterochka Shares until the end of the meeting. Such copy will also be available for inspection at the General Meeting of Shareholders.

The General Meeting of Shareholders is exclusively authorized to adopt a resolution to amend the Articles. On 12 May 2006, the Extraordinary General Meeting will be asked to approve an amendment to the Articles to the effect that the Management Board may consist of, *inter alia*, two or more Directors C. Further, for practical purposes, the Extraordinary General Meeting will be requested to approve to amend the Articles as such that any entries and notes in the Shareholders' register of the Company shall be signed by the Director B (instead of all the Directors). A copy of the proposed amendments of the Articles is set out in Part XVI of this document.

(l) Liquidation

In the event of dissolution of the Company by virtue of a resolution of the General Meeting the members of the Management Board shall be charged with the liquidation of the business of the Company and the Board of Supervisory Directors with the supervision thereof. The balance of the Company remaining after payment of debts shall be transferred to the shareholders in proportion to the aggregate nominal amount of their Pyaterochka Shares.

(m) Board practices

(i) Board of Supervisory Directors

Pursuant to the Articles, the Board of Supervisory Directors (*Raad van Commissarissen*) supervises the management of the Management Board and the general course of affairs and the business of the Company. The Board of Supervisory Directors advises the Management Board. In performing their duties, the members of the Board of Supervisory Directors shall act in accordance with the interests of the Company and of the business connected with it. Certain resolutions of the Management Board identified in the Articles require the approval of the Board of Supervisory Directors.

The Board of Supervisory Directors shall elect a chairman from among its members, and a deputy chairman who shall take the place of the chairman in the latter's absence. The Board of Supervisory Directors shall meet whenever, any one member of the Board of Supervisory Directors, or the Management Board deems necessary. The Board of Supervisory Directors shall meet together with the Management Board as often as the Board of Supervisory Directors or any Director A deems such necessary.

The Board of Supervisory Directors adopts resolutions by a majority of the votes cast at a meeting at which at least half of the members of the Board of Supervisory Directors in office are present or represented. Certain resolutions of the Board of Supervisory Directors identified in the Articles can only be adopted by a majority of three quarters of the votes cast in a meeting in which at least three-fifths of the members of the Board of Supervisory Directors are present or represented. The Board of Supervisory Directors may adopt resolutions in writing without holding a meeting, provided they are adopted unanimously by all members of the Board of Supervisory Directors.

The General Meeting shall appoint the members of the Board of Supervisory Directors from a list of nominees, containing names of at least two persons for each vacancy, to be drawn up by the Board of Supervisory Directors. As soon as a function of a member of the Board of Supervisory Directors is or becomes vacant, the Management Board shall request the Board of Supervisory Directors in writing to draw up a list of nominees. A list of nominees drawn up within four weeks after the Management Board's written request by the Board of Supervisory Directors shall be binding to the General Meeting. The General Meeting, however, may deprive the list of nominees of its binding character by a resolution adopted with a majority of two-thirds of the votes cast, representing more than half of the issued capital. If the Board of Supervisory Directors does not draw up a list of nominees in time, the General Meeting shall be authorised to appoint the members of the Board of Supervisory Directors at its own discretion.

Pursuant to the Articles, the General Meeting is entitled to dismiss or suspend members of the Board of Supervisory Directors any time. The General Meeting determines the number of members of the Board of Supervisory Directors. The General Meeting determines the remuneration of the members of the Board of Supervisory Directors.

Pursuant to the Articles, the Board of Supervisory Directors shall have an audit committee, a remuneration committee and a selection and appointment committee. The Board of Supervisory Directors may adopt rules regarding each committee. The committees shall conform to any regulations imposed on them by the Board of Supervisory Directors.

At least once a year, the Management Board shall inform the Board of Supervisory Directors in writing about the general course of affairs in respect of the general, strategic and financial risks and the control and monitoring mechanism (*beheers- en controlesysteem*) of the Company.

(ii) Management Board

Pursuant to the Articles, the Management Board (*Raad van Bestuur*) is responsible for the management of the Company. Pursuant to the Articles, only the Management Board jointly is authorised to represent the Company. On proposal of the Board of Supervisory Directors, the Management Board may appoint authorised

representatives (including members of the Management Board) with general or limited power to represent the Company (*procuratiehouders*). Each of these authorised representatives shall be able to represent the Company with due observance of any restrictions imposed on him. In the event of a conflict of interest between the Company and a member or all members of the Management Board, the Company shall be represented by such member of the Board of Supervisory Directors as the Board of Supervisory Directors shall designate for this purpose. The General Meeting shall at all times be competent to designate one or more other persons for this purpose.

The Management Board may adopt resolutions with a simple majority in a meeting where all Directors A are present or represented or unanimously in writing without a meeting. If there is a tie of votes, the relevant question shall be addressed to the Board of Supervisory Directors. Resolutions of the Management Board having an important impact on the identity or nature of the Company or its business shall be subject to the prior approval of the General Meeting. Further, certain other resolutions of the Management Board identified in the Articles are subject to the prior approval of the Board of Supervisory Directors.

Pursuant to the Articles, the management of the Company shall be constituted by a Management Board consisting of two or more Directors A, one Director B and possibly one Director C. The number of members shall be determined by the General Meeting. The General Meeting shall appoint the members of the Management Board from a list of nominees, containing names of at least two persons for each vacancy, to be drawn up by the Board of Supervisory Directors. As soon as a function of a member of the Management Board is or becomes vacant, the Management Board shall request the Board of Supervisory Directors in writing to draw up a list of nominees. A list of nominees drawn up within four weeks after having received a written request thereto by the Board of Supervisory Directors shall be binding to the General Meeting. The General Meeting, however, may deprive the list of nominees of its binding character by a resolution adopted with a majority of two-thirds of the votes cast, representing more than half of the issued capital. If the Board of Supervisory Directors does not draw up a list of nominees in time, the General Meeting shall be authorised to appoint the members of the Management Board at its own discretion.

Members of the Management Board shall be appointed for a period of up to four years. Re-appointment is possible, but each time for a period of up to four years. The Board of Supervisory Directors shall determine the titles of the members of the Management Board. One of the Directors A shall have the title of CEO and another Director A shall have the title of CFO. The Board of Supervisory Directors shall determine the remuneration and further conditions of employment for each member of the Management Board, with due observance of the remuneration policy adopted by the General Meeting on proposal of the Board of Supervisory Directors. The granting of options or option plans to members of the Management Board is subject to the approval of the General Meeting. Both individuals and legal entities can serve as members of the Management Board.

Pursuant to the Articles, the General Meeting is entitled to dismiss or suspend members of the Management Board. In addition, the Board of Supervisory Directors is entitled to suspend members of the Management Board.

(iii) Corporate Governance Code

On 9 December 2003, a committee commissioned by the Dutch government (*Commissie Tabaksblat*) published a Dutch corporate governance code (the “**Code**”). The provisions of the Code took effect on 1 January 2004. Some of the Code’s best practice provisions have been incorporated into Dutch law, including the obligation for companies to discuss in their annual report in detail the points on which they do not comply with the Code, explaining the reasons for doing so. Any substantial changes to corporate governance structure of a company or any substantial changes to compliance with the Code shall be discussed at the annual general meeting of Shareholders.

Best practice provision III.2.1 of the code prescribes that the Board of Supervisory Directors consists of independent persons, except for one member. This provision is not complied with, as, currently, there is only one independent member of the Board of Supervisory Directors. The Company intends to appoint a second independent member of the Board of Supervisory Directors in 2006.

(iv) Information to General Meeting

Pursuant to the Management Board Rules, the Management Board must provide the General Meeting with all information that it may require, unless important interests of the Company or any law, rule or regulation applicable to the Company would prevent it from doing so. Pursuant to the Rules of the Board of Supervisory Directors, the Board of Supervisory Directors must inform the General Meeting by means of a circular for

Shareholders of all facts and circumstances relevant to the items on the agenda. It must also provide the General Meeting with all information that the latter may require concerning an item on the agenda, unless important interests of the Company or any law, rule or regulation applicable to the Company would prevent it from doing so. Circulars for Shareholders will be posted on the Company's website.

(v) Potential mandatory offer rules

The directive of the European Parliament and of the Council of the European Union (the "**Council**") on takeover bids (the "**Take-Over Directive**") was adopted by the Council on 30 March 2004 and became effective on 20 May 2004. The Take-Over Directive applies to all companies governed by the laws of a European Union member state of which all or some securities are admitted to trading on a regulated market in one or more member states. Pursuant to the Take-Over Directive, a person holding securities in such a company that, when added to any existing holdings and the holdings of persons acting in concert with him, directly or indirectly give him control of that company, is required to make a public offer to all the holders of those securities for all their holdings at an equitable price. The laws of the member state in which the company has its registered office will determine what percentage of the voting rights in that company is regarded as conferring control over the company and the method of calculation of such percentage.

The draft legislative proposal published by the Dutch government on 31 March 2005 for the implementation of the Take-Over Directive (the "**Proposal**") sets the threshold for a mandatory offer at the ability to exercise 30 per cent. of the voting rights in a Dutch public limited company with a listing in Europe. The mandatory offer does not apply to controlling interests in existence as of the date the Proposal enters into force. Other changes to be introduced by the Proposal include a so-called "breakthrough rule" which provides that certain defensive mechanisms will lose their effectiveness six months after a bid has been made on the condition that the bidder owns 75 per cent of the shares. In addition, the Proposal reinforces Dutch squeeze-out proceedings (see paragraph 1.2(m)(vi) of this Part below) and provides that if after having made a bid and acquired shares representing at least 95 per cent. of the target company's issued share capital and at least 95% of the voting rights, the offeror does not buy out a remaining shareholder, the latter may initiate sell-out proceedings against the bidder.

The Directive must be implemented into the laws of The Netherlands not later than 20 May 2006.

(vi) Dutch squeeze-out proceedings

If a person or company or group of companies (the "**Controlling Entity**") holds in total 95 per cent. of Pyaterochka's issued share capital by nominal value for their own account, Dutch law permits the Controlling Entity to acquire the remaining Pyaterochka Shares in the Controlled Entity by initiating proceedings against the holders of the remaining Pyaterochka Shares. The price to be paid for such Pyaterochka Shares will be determined by the Enterprise Chamber of the Amsterdam Court of Appeal. A Shareholder who holds less than 95 per cent. of the Pyaterochka Shares, but in practice controls the Controlled Entity's general meeting of shareholders, could attempt through a legal merger with another company holding an interest in the Controlled Entity or by subscribing to additional Pyaterochka Shares in the Controlled Entity (for example, in exchange for a contribution of part of its own business) or through any other form of restructuring to raise its interest to 95 per cent.

The Proposal relating to the Take-Over Directive supplements the existing buy-out regulation and provides that if the bid made by the Controlling Entity was a mandatory bid, the consideration offered in that bid will be deemed to be a fair price for the purposes of the squeeze-out. If the bid was voluntary, the consideration offered in that bid will be deemed to be a fair price if shares representing at least 90 per cent. of the company's capital were acquired through the bid. In both cases, the Enterprise Chamber of the Amsterdam Court of Appeal remains entitled to appoint one or three experts to determine a fair price.

(vii) Significant ownership of shares

Holders of Pyaterochka Shares or GDRs may be subject to reporting obligations under the Dutch Disclosure of Holdings in Listed Companies Act 1996 (*Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996*) (the "**Disclosure Act**") and the Dutch Supervision of the Securities Trade Act 1995 (*Wet toezicht*

effectenverkeer 1995) (the “**Dutch Securities Act**”). Pursuant to the Disclosure Act, any person who holds an interest in the capital or voting rights of the Company at the time of the GDRs being admitted to trading on the London Stock Exchange, must give written notice to the Company and, by means of a standard form, the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) (the “**AFM**”) within four weeks of the GDRs being admitted to listing, unless such person holds less than 5 per cent. in the capital or voting rights of the Company. In addition, any person who, directly or indirectly, acquires or disposes of an interest in the capital or voting rights of the Company must forthwith give written notice to the Company and, by means of a standard form, the AFM if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person falls within a different percentage range as compared with the percentage range applicable to the capital interest or voting rights held by such person prior to the acquisition or disposal. The percentage ranges referred to in the Disclosure Act are 0 per cent. to 5 per cent., 5 per cent. to 10 per cent., 10 per cent. to 25 per cent., 25 per cent. to 50 per cent., 50 per cent. to 66²/₃ per cent. and 66²/₃ per cent. or more.

On 3 July 2003, a draft bill to amend the Disclosure Act was submitted to the Second Chamber of the Dutch Parliament. According to the explanatory notes to the draft bill and the ministerial Memorandum of Amendments (*Nota van Wijziging*) dated 8 December 2005, it is anticipated that the following percentage ranges will be introduced: 0 per cent. to 5 per cent., 5 per cent. to 10 per cent., 10 per cent. to 15 per cent., 15 per cent. to 20 per cent., 20 per cent. to 25 per cent., 25 per cent. to 30 per cent., 30 per cent. to 40 per cent., 40 per cent. to 50 per cent., 50 per cent. to 60 per cent., 60 per cent. to 75 per cent., 75 per cent. to 95 per cent.. These percentages have been introduced in order to comply with the directive of the Commission of the European Union and of the European Parliament on the harmonization of transparency requirements for securities issuers (the “**Transparency Directive**”). The Transparency Directive must be implemented in Dutch law by 20 January 2007.

For the purpose of calculating the percentage of capital interest or voting rights under the currently applicable Disclosure Act, the following interests must be taken into account: (i) Pyaterochka Shares (or depositary receipts for Pyaterochka Shares or GDRs) directly held (or acquired or disposed of) by any person; (ii) Pyaterochka Shares (or depositary receipts for Pyaterochka Shares or GDRs) held (or acquired or disposed of) indirectly held by such person (e.g., through a company); (iii) Pyaterochka Shares (or depositary receipts for Pyaterochka Shares or GDRs) held by a third party for such person’s account or by a third party with whom such person has concluded an oral or written voting agreement; and (iv) Pyaterochka Shares (or depositary receipts for Pyaterochka Shares or GDRs) which such person (directly or indirectly) or third party referred to above, may acquire pursuant to any option or other right to acquire Pyaterochka Shares (or depositary receipts for Pyaterochka Shares). Special rules apply to the attribution of Pyaterochka Shares (or depositary receipts for Pyaterochka Shares or GDRs) which are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of Pyaterochka Shares (or depositary receipts for Pyaterochka Shares or GDRs) can also be subject to the reporting obligations, if such person has, or can acquire, the right to vote the Pyaterochka Shares or, in case of depositary receipts or GDRs, the underlying Pyaterochka Shares. The acquisition or (conditional) voting rights by a pledgee or beneficial owner may also trigger the reporting obligations as if such pledgee or beneficial owner were the legal holder of the Pyaterochka Shares (or depositary receipts for the Pyaterochka Shares or GDRs).

In addition, pursuant to the Dutch Securities Act members of the Management Board, members of the Board of Supervisory Directors, certain key employees of the Company, or persons who are closely associated with such persons (“**Insiders**”), have an obligation to notify the AFM of transactions for their own account in shares that have been issued by the Company, or securities whose value is determined in part by the value of those shares.

Insiders should notify the AFM of their transactions in shares that have been issued by the Company, or securities whose value is determined in part by the value of those shares no later than five working days after the date of the transaction. Notification can be delayed until the moment that the value of the transactions performed by the Insider in its own account or together with the transactions carried out for their own account by the people closely associated with the Insider concerned, reaches or exceeds the amount of EUR 5,000 in the calendar year in question.

The AFM keeps a public registry of and publishes all notifications made pursuant to the Disclosure Act and the Dutch Securities Act.

Non-compliance with the reporting obligations under the Disclosure Act or the Dutch Securities Act could lead to criminal fines, administrative fines, imprisonment or other sanctions. In addition, non-compliance with the

reporting obligations under the Disclosure Act may lead to civil sanctions, including (i) a general suspension of voting rights in respect of the Pyaterochka Shares, or Pyaterochka Shares underlying any GDRs or other depositary receipts, for a period of up to three years; and/or (ii) a court order prohibiting a person from (acquiring or) exercising voting rights in respect of the Pyaterochka Shares, or Pyaterochka Shares underlying any GDRs or other depositary receipts, for a period of up to five years.

1.3 Material Contracts

The following contracts, which are or may be material, have been entered into by Pyaterochka or the Pyaterochka Group otherwise than in the ordinary course of business in the two years immediately preceding the date of this document or contain any provision under which Pyaterochka or the Pyaterochka Group has any obligation or entitlement which is material to Pyaterochka or the Pyaterochka Group as at the date of this document.

- (a) the Transaction Documents, the details of which are set out in Part X of this document;
- (b) Acquisition of stake in Ural-Agro-Torg and establishment of Pyaterochka Ural joint venture

On 14 November 2005 an agreement for the establishment of a Pyaterochka chain of shops in the Ural region was concluded between Mr. Krasnikov A.V., Mrs. Krasnikova E.V. and Agro-Star as purchaser (the “**Ural JV Agreement**”). Under the Ural JV Agreement, Agro-Star has a right to acquire 26 per cent. of the Pyaterochka franchise operations in the territory of Chelyabinsk consisting of three companies: (i) OOO Ural-Agro-Torg (“**UAT**”), wholly owned by Mr. Krasnikov A.V., (ii) OOO Leto, owned by 29 legal entities affiliated with and controlled by Mr. Krasnikov A.V., and (iii) OAO Utes, in which 99.93 per cent. of the shares are held by UAT and 0.07 per cent. of the shares are held by Mrs. Krasnikova E.V.

In accordance with the Ural JV Agreement, Agro-Star concluded two share purchase agreements with Mr. Krasnikov A.V. on 16 January 2006:

- (i) for the acquisition of a 26 per cent. participatory share in the charter capital of UAT at a purchase price of RUR 34,800,000; and
- (ii) for the acquisition of a 26 per cent. participatory share in the charter capital of OOO Leto at a purchase price of RUR 8,700,000.

The Ural JV Agreement also provides for a further consolidation of Pyaterochka’s operations in the Chelyabinsk and Yekaterinburg regions. The parties agreed to incorporate a new entity, OOO Pyaterochka Ural, by 1 June 2006 by way of the following contributions into the charter capital of the company: (i) contributions to be made by Pyaterochka Group: 26 per cent. of the shares in both UAT and OOO Leto together with 100 per cent. share in OOO Ekonomtorg, and (ii) contributions to be made by Mr. Krasnikov A.V.: 74 per cent. of the shares in both UAT and OOO Leto. As a result, the following participatory shares will be held in Pyaterochka Ural on incorporation:

- (i) a 51 per cent. participatory share will be owned by Agro-Star; and
- (ii) a 49 per cent. participatory share will be owned by Mr. Krasnikov A.V.

The Ural JV Agreement is also a preliminary agreement for the parties to enter into share purchase agreements in June 2008 in relation to the sale by Mr. Krasnikov A.V. to Agro-Star or a 23 per cent. participatory share in Pyaterochka Ural and in 2009 in relation to the remaining 26 per cent. share held by Mr. Krasnikov A.V. in Pyaterochka Ural at the price determined under the formula set out therein. Therefore, the Pyaterochka Group may become the sole shareholder of Pyaterochka Ural and its subsidiaries in 2009.

- (c) Share purchase agreements relating to the acquisition of OOO Ekonomtorg and OOO Ural-retail

Agro-Star concluded two share purchase agreements with OOO Kvest on 30 December 2005 in relation to the acquisition of a 99.5 per cent. participatory share in OOO Ekonomtorg (franchisee for the Yekaterinburg and Sverdlovsky regions) and a 99.99 per cent. participatory share in OOO Ural-retail respectively.

On 20 March 2006, OOO Ekonomtorg was sold to third parties for a nominal value. As a result of this transaction three stores rented by OOO Ekonomtorg were closed.

(d) Call Option Agreements

(i) OOO Vega

On 16 December 2005 Agro-Star entered into an agreement for the conditional assignment of shares in OOO Vega with OOO Investitsionnaya kompaniya Proektnoe finansirovanie, OOO ONIKA, OOO Vega and OOO Lessnabservis (franchising company and operator in Vologodsky region) (the “**Vega Agreement**”). The Vega Agreement provides for the right of Agro-Star to acquire a 26 per cent. participatory share in OOO Vega (a holding company for the franchising company OOO Lessnabservis), once OOO Lessnabservis achieves certain financial targets. The purchase price is the amount of the net assets of OOO Lessnabservis according to IFRS plus a premium for the long term lease rights of OOO Lessnabservis multiplied by 0.26. Agro-Star’s obligation is formulated as an option to buy and it has a right of unilateral refusal to buy the participatory share. The term of the option is two years from the date the condition precedent is satisfied.

(ii) OOO BelKhladoOpt

On 30 November 2005 Agro-Star entered into an agreement for the conditional assignment of shares in OOO BelKhladoOpt with OOO KND, Mr. Povekvechnykh R.A., OOO BelKhladoOpt and OOO BelKhladoSet (franchisee and operating company in the Belgorosky region) (the “**BelKhladoOpt Agreement**”). The BelKhladoOpt Agreement provides for the right of Agro-Star to acquire a 26 per cent. participatory share in OOO BelKhladoOpt (which is a holding company of the franchising company OOO BelKhladoSet) once OOO BelKhladoSet achieves certain financial targets. The purchase price is defined as the amount of net assets of OOO BelKhladoSet according to IFRS plus a premium for the long term lease rights of OOO BelKhladoSet multiplied by 0.26. Seventy per cent. of the purchase price is to be paid to OOO KND and 30 per cent. to Mr. Povekvechnykh. Agro-Star’s obligation is formulated as an option to buy and it has a right of unilateral refusal to buy the participatory share. The term of the option is two years from the date the condition precedent is satisfied.

(iii) ZAO Prodtorg

On 1 September 2005 Agro-Star entered into an agreement for the conditional assignment of shares in ZAO Prodtorg with Mr. Mkrtchyan O.S. (the “**Prodtorg Agreement**”). The Prodtorg Agreement provides for the right of Agro-Star to acquire a 26 per cent. participatory share in ZAO Prodtorg (franchisee and operating company in the Omsky region) once ZAO Prodtorg achieves certain financial targets. The purchase price is defined as an amount of net assets of ZAO Prodtorg according to IFRS, plus a premium for the long term lease rights of ZAO Prodtorg multiplied by 0.26. Agro-Star’s obligation is formulated as an option to buy and it has a right of unilateral refusal to buy the participatory share. The term of the option is two years from the date the condition precedent is satisfied.

(e) Partnership Agreements in relation to proposed acquisition of stakes in Pyaterochka Group franchisees

In 2004 Pyaterochka concluded four partnership agreements with the following franchisees as counterparties:

(i) OOO Sbytovaya set Pyaty Element on 30 June 2004;

(ii) OOO Agrotorg-Samara on 18 August 2004;

(iii) OOO Novosibirsk-Torg on 6 December 2004; and

(iv) OOO Verona on 8 December 2004.

These agreements give Pyaterochka (or its affiliates) a right to acquire a 25 per cent. plus one voting share in all joint stock companies (or 26 per cent. of the participation rights in limited liability companies, as the case may be) engaged in the activities related to the implementation of the relevant franchise agreements. Once the relevant companies achieve certain financial targets, including positive profit figures, Pyaterochka has the right to buy the above-mentioned stakes. The purchase price is to be determined by the parties in an additional agreement to be concluded after the date of the partnership agreements.

(f) Share purchase agreement relating to acquisition of OOO Set Roznichnoy Torgovli

On 15 December 2005, Speak Global entered into a share purchase agreement with Bozkada Limited (Cyprus) in relation to the acquisition of a 100 per cent. participatory share in OOO Set Roznichnoy Torgovli (“SRT”) with nominal value of RUR241,023,500.0 to Speak Global at the price of US\$83,000,000.

By acquiring SRT, the Pyaterochka Group will acquire control over the SRT group including: (i) OOO Set Roznichnoy Torgovli – Voronezh (50 per cent. of the share capital), (ii) OOO Set Roznichnoy Torgovli – Center (67 per cent. of the share capital); (iii) OOO Set Roznichnoy Torgovli – Yaroslavl (100 per cent. of the share capital); (iv) OOO Mercuriy (100 per cent. of the share capital); (v) OOO Lavanda (50 per cent. of the share capital); and (vi) OOO Belmos (50 per cent. of the share capital).

(g) Acquisition of Speak Global subsidiaries

In between June and August 2005, Speak Global acquired its nine subsidiary companies for a total price of approximately US\$95,176,195. Speak Global entered into nine share purchase agreements in this regard with Westry Overseas Limited (for the purchase of OOO Beta Estate), Comtry Corp. (for the purchase of OOO Kraun Development, OOO Moris, OOO Mega-M and OOO Rent Service), Comsel Corp. (for the purchase of OOO Onitex) and Proxim Inc. (for the purchase of OOO Belveg, OOO Vinsteyt and OOO Alians – Service).

(h) Issue of bonds by Pyaterochka Finance

In 2005-2006 Pyaterochka Finance conducted two bond issues:

- (i) First, documentary bearer bonds with coupon yield for an aggregate amount of RUR1,500,000,000, which mature in 1,820 days from the beginning of their placement. The First Issue Bonds were placed by open subscription conducted on the Moscow MICEX Stock Exchange. The rate of the coupon payable on the First Issue Bonds was determined through an auction conducted on the MICEX Stock Exchange in the amount of 11.45 per cent. The issue of First Issue Bonds was registered on 31 March 2005.
- (ii) Secondly, documentary bearer bonds with coupon yield for an aggregate amount of RUR3,000,000,000, which mature in 1,820 days from the beginning of their placement. The Second Issue Bonds were placed by open subscription on the Moscow MICEX Stock Exchange. The rate of the coupon payable on the Second Issue Bonds was specified through an auction conducted on the MICEX Stock Exchange in the amount of 9.3 per cent. The issue of Second Issue Bonds was registered on 1 December 2005.

(i) Loans from Raiffeisenbank and Promstroibank

In February 2006, the Pyaterochka Group entered into a credit line agreement with Raiffeisenbank for RUR1,000 million to finance its working capital needs. The loan is unsecured, matures in February 2007 and bears interest of 1 month mosprime plus 1.5 per cent. (approximately 5 per cent.). In April 2006, the Pyaterochka Group entered into a universal credit line agreement with Promstroibank for RUR1,000 million to finance its working capital needs. The loan is unsecured, matures in 1.5 years and bears interest between 1.5 per cent. and 10.5 per cent.

1.4 Dividend Policy

The Company does not currently plan to pay a dividend.

The distribution of profits and payment of a dividend are subject to compliance with the Dutch Civil Code and the Articles. Dividends may in principle only be paid out of profits as shown in the adopted annual financial statements prepared using IFRS. The profits must first be used to set up and maintain reserves required by the law and must then be set off against certain financial losses. The Company’s General Meeting, on proposal of the Company’s Board of Supervisory Directors, may determine which part of the profits shall be added to the reserves and the allocation of the remaining profits. On proposal of the Board of Supervisory Directors, the General Meeting may resolve to distribute all or any part of the freely distributable reserves. On proposal of the Board of Supervisory Directors, the General Meeting may also resolve in accordance with the provisions of the law and the Articles that an interim dividend shall be distributed out of the profits made in the current financial year.

As a holding company, the level of the Company's income and its ability to pay dividends depend primarily upon the receipt of dividends and distributions from its subsidiaries. The payment of dividends by its subsidiaries is contingent upon sufficiency of their earnings, cashflows and distributable profits.

For the years ended 31 December 2004 and 2003, the Company paid dividends of approximately US\$0.09 and US\$0.06 per Ordinary Share, respectively. The Company has not declared a dividend for the year ended 31 December 2005.

To the extent that dividends are declared and paid by Pyaterochka, GDR Holders on the relevant record date will be entitled to receive dividends payable in respect of Pyaterochka Shares, subject to the terms of the Deposit Agreement. Cash dividends may be paid to the Depositary in US dollars or in Euro. If paid in Euro, cash dividends will be converted into US dollars by the Depositary and paid to GDR Holders net of currency conversion expenses, except as otherwise described in the "Terms and Conditions" of the GDRs.

1.5 Legal and arbitration proceedings

No member of the Pyaterochka Group is involved nor has been involved in any governmental, legal or arbitration proceedings in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the Company and/or the Pyaterochka Group's financial position or profitability and, so far as the Company is aware, there are no such proceedings pending or threatened against any member of the Pyaterochka Group.

1.6 Significant change

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Pyaterochka Group since 31 December 2005 (the date to which the latest financial information in the Pyaterochka Financial Statements was drawn up).

1.7 Information on the Depositary and the GDRs

Information relating to the Depositary is contained on page 93 of the IPO Prospectus and incorporated by reference into this document. Details of the terms and conditions of the GDRs and a summary of provisions relating to the GDRs whilst in master form are contained on pages 73 to 92 of the IPO Prospectus and incorporated by reference into this document.

1.8 Information on holdings

Agro-Star holds a 26 per cent. interest in Ural Agrotorg and OOO Leto which together hold a franchise granted by the Pyaterochka Group in Chelyabinska.

1.9 Expenses of the issue

The total costs and expenses payable by the Company in connection with the Perekrestok Transaction, Admission and the listing of the New GDRs is estimated to be approximately US\$4.1 million.

1.10 General Information

The Company was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands by notarial deed dated 13 August 1975 and is domiciled in The Netherlands. Pyaterochka is governed by and its securities were created under the Dutch Civil Code. On 28 May 2004, the Company was converted into a public limited liability company (*naamloze vennootschap*) and the Company's name was changed to Pyaterochka Holding N.V.. The Company trades under the name Pyaterochka. The registered office of the Company is Rokin 55, 1012 KK Amsterdam, The Netherlands and its principal place of business is Bakovskaya Street, 8 Oduntsovo, Moscow oblast 143006. The telephone numbers of the Company's registered office and principal place of business are +31 20 521 4777 and +7 495 502 9781, respectively. The Company is registered in the commercial register of the Chamber of Commerce and Industry for Amsterdam under number 33143036.

Excluding Shareholder approval which will be sought at the EGM on 12 May 2006 and the consent of the UKLA and the London Stock Exchange, all consents, approvals, authorisations or other orders required for the issue of the New GDRs under the prevailing laws of The Netherlands have been given or obtained.

If Pyaterochka does issue the Prospectus prior to closing the Perekrestok Transaction, application will be made to the UKLA and to the London Stock Exchange respectively, for admission of the New GDRs (i) to the Official List; and (ii) to trading on the London Stock Exchange's market for listed securities ("Admission"). In this circumstance, it is expected that listing will become effective following the date on which it is announced that all conditions to the Perekrestok Transaction have been fulfilled. If Pyaterochka issues the Prospectus and the UKLA and London Stock Exchange agree to Admission prior to closing the Perekrestok Transaction, the Perekrestok Sellers will be issued New GDRs in respect of the Pyaterochka Shares. If Pyaterochka does not issue the Prospectus or the UKLA and London Stock Exchange do not agree to Admission prior to closing the Perekrestok Transaction, the Perekrestok Sellers will be issued Pyaterochka Shares in the form of ordinary shares.

In the event that certificates in definitive form are issued in respect of the New GDRs, the Company will appoint an agent in the United Kingdom for so long as the New GDRs are listed on the London Stock Exchange.

Copies of the following documents may be inspected at Lovells, Atlantic House, 50 Holborn Viaduct, London EC1A 2FG, United Kingdom during usual business hours on any weekday (Saturday, Sunday and public holidays excepted), for 14 days from the date of this document:

- (a) the Articles (together with an English translation);
- (b) the Pyaterochka Financial Statements together with the report of ZAO Deloitte & Touche CIS contained therein;
- (c) the Perekrestok Financial Statements together with the reports of PricewaterhouseCoopers contained therein; and
- (d) the IPO Prospectus.

The Company has taken appropriate measures to comply with the regulations on insider trading pursuant to the Dutch Securities Act.

Holders of GDRs can contact the Depositary at 101 Barclay Street, 22nd Floor, New York, New York 10286, United States (telephone + 1 212 815 4493) or through The Bank of New York, London branch, One Canada Square, London E14 5AL, United Kingdom (telephone +44 207 964 6355).

1.11 Amendment to the Articles

On 12 May 2006, the Extraordinary General Meeting will be asked to approve an amendment to the Articles to the effect that the Management Board may consist of, *inter alia*, two or more Directors C. Further, for practical purposes, the Extraordinary General Meeting will be requested to approve to amend the Articles as such that any entries and notes in the Shareholders' register of the Company shall be signed by the Director B (instead of all the Directors). A copy of the proposed amendments of the Articles is set out in Part XVI of this document.

1.12 Incorporation by reference

The following sections of the IPO Prospectus are incorporated by reference in and form part of this document

- (a) Russian Grocery Retail Industry;
- (b) Terms and Conditions of the GDRs;
- (c) Summary of provisions relating to the GDRs whilst in Master Form; and
- (d) Information relating to the Depositary.

In addition, see Part XIV "Checklist of Documentation Incorporated by Reference" for the location of references to those Sections of the IPO Prospectus within this document and for the location of those Sections of the IPO Prospectus within the IPO Prospectus.

PART XIV. CHECKLIST OF DOCUMENTATION INCORPORATED BY REFERENCE

Information incorporated by reference	Document references	Page number in this document
Russian Grocery Retail Industry	IPO Prospectus (pages 28 to 31)	Page 205
Terms and Conditions of the GDRs	IPO Prospectus (pages 73 to 92)	Page 220
Summary of provisions relating to the GDRs whilst in Master Form	IPO Prospectus (pages 91 to 92)	Page 220
Information relating to the Depositary	IPO Prospectus (page 93)	Page 220

**PART XV. CONVOCAATION OF EXTRAORDINARY GENERAL MEETING OF
SHAREHOLDERS OF PYATEROCHKA HOLDING N.V.**



CONVOCAATION

To the Extraordinary General Meeting of Shareholders (the “EGM”) of Pyaterochka Holding N.V. (the “Company”), established in Amsterdam, to be held on 12 May 2006, starting at 11am CET at Rokin 55, 1012 KK Amsterdam, The Netherlands. The following items will be discussed at the EGM, of which items 2 – 9 inclusive of this Agenda will be voted on.

Agenda:

1. Opening and announcements.
2. Approval of the resolution of the Management Board for the proposed acquisition by the Company of the entire issued share capital of Perekrestok Holdings Limited (the “Perekrestok Transaction”) in accordance with Article 17 sub 1 of the articles of association of the Company (the “Articles”) as well as on the basis of Section 2:107a of the Dutch Civil Code.
3. Issuance of 15,813,253 shares pursuant to Article 6 sub 1 of the Articles either to (i) The Bank of New York, which will then issue GDRs in respect of the newly issued shares to Luckyworth Limited (“Luckyworth”) and Templeton Strategic Emerging Markets Fund LDC (“Templeton”), conditional only on delivery by Fortis Bank (Nederland) N.V. to The Bank of New York of an issuance confirmation letter issued by the Company to The Bank of New York, or (ii) directly to Luckyworth and Templeton, conditional only on delivery by Fortis Bank (Nederland) N.V. to Luckyworth and Templeton, of an issuance confirmation letter issued by the Company to Luckyworth and Templeton and exclusion of pre-emption rights of the shareholders of the Company to subscribe for such shares in accordance with Article 7 sub 3 of the Articles.
4. Approval of entering into all legal acts as referred to in Section 2:94 paragraph 2 Dutch Civil Code by the Management Board in respect of the contribution in kind on the shares to be issued.
5. Amendment to the articles of association and authorisation of each Director of the Company and certain employees of Lovells Amsterdam to apply for the requisite declaration of no-objection with the Dutch Ministry of Justice and to execute the deed of amendment.
6. Appointment of new Directors A and C to the Management Board and expansion of the Management Board.
7. Appointment of new members of the Supervisory Board and expansion of the Supervisory Board.
8. Acceptance of resignation and granting of full and final discharge to the resigning members of the Supervisory Board.
9. Appointment of members of the Management Board as persons as referred to in Section 2:146 Dutch Civil Code and Article 16 sub 4 of the Articles in order to represent the Company with respect to the Perekrestok Transaction.
10. Questions of shareholders.
11. Any other business and conclusion.

A shareholder circular which sets out the details of the proposed acquisition, the issuance of shares and the exclusion of pre-emption rights to such shares, the proposed appointments of new members to the Supervisory Board and Management Board, the granting of discharge to the resigning members of the Supervisory Board and the appointment of members of the Management Board to represent the Company with respect to the Perekrestok Transaction, submitted to approval of the EGM, and a complete copy of the proposed amendment to the articles of association will be deposited for inspection by the shareholders and other persons entitled to attend the meeting at the Company’s offices in Amsterdam as of today until and including the date of the EGM and is available free of charge. The shareholder circular is also available on the website of the Company (www.e5.ru).

The proposed resolutions which are set forth in items 3 - 9 of the above Agenda will be conditional on consummation of the Perekrestok Transaction and related transactions as described in Part I of the shareholder circular (Letter from the Chairman of the Board of Supervisory Directors of Pyaterochka).

The shareholders' register of the Company in Amsterdam, the Netherlands, has been designated as register to certify the persons entitled to vote on the shares. The persons identified as entitled to vote on the basis of the shareholders' register of the Company on the date of the EGM may exercise their rights to vote and attend the EGM. These shareholders may also exercise their rights to vote and/or attend the EGM by a written proxy duly executed and legalized in accordance with the laws of the country where the proxy is issued. Proxy holders shall present their power of attorney at the EGM.

The register of GDR Holders maintained by the Depositary indicates the persons entitled to GDRs on the relevant record date and entitled to give voting instructions to the Depositary pursuant to Condition 12 of the GDRs. GDR Holders may instruct the Depositary with regard to the exercise of voting rights with respect to Deposited Shares by completing, signing and returning to the Depositary the relevant voting documentation forwarded by the Depositary to the GDR Holders following receipt by the Depositary from the Company. The deadline for providing instructions to the Depositary will be specified by the Depositary in the information provided to GDR Holders. The Depositary will procure the exercise of voting instructions received from GDR Holders by the relevant deadline in accordance with the GDR Conditions and the normal processes of the Depositary.

Alternatively, GDR Holders who wish to vote in person at the EGM will, on request, be granted an exclusive proxy to do so by The Bank of New York. A GDR Holder to whom such exclusive proxy has been granted must notify the Management Board of the Company of their intention to attend and vote at the EGM and must provide the Management Board with a copy of such proxy at least five (5) days prior to the EGM. GDR Holders who intend to vote in this manner must provide sufficient proof of identification on admission to the EGM. In addition, if the exclusive proxy has been granted by The Bank of New York to a GDR Holder which is a legal entity, the person who represents such legal entity at the EGM must provide sufficient proof that he is duly authorized to do so by means of a statement from a local lawyer or notary admitted to practice in the jurisdiction of the GDR Holder, duly executed and legalized in accordance with the laws of such jurisdiction.

Amsterdam, 24 April 2006

The Management Board

Oleg Vysotsky
Anzhelika Li
Wim G. Rieff

PART XVI. PROPOSED AMENDMENT TO THE ARTICLES

CONCEPT AKTE VAN STATUTENWIJZIGING

PYATEROCHKA HOLDING N.V.

Heden, tweeduizend zes, verschijnt voor mij, mr Jan Bouwen de Snaijer, notaris te Amsterdam:

De comparante verklaart dat op twaalf mei tweeduizend zes door de algemene vergadering van aandeelhouders van de naamloze vennootschap: **Pyaterochka Holding N.V.**, statutair gevestigd te Amsterdam, met adres: Rokin 55, 1012 KK Amsterdam, is besloten de statuten van de vennootschap te wijzigen en de comparante te machtigen deze akte te verlijden.

Ter uitvoering van die besluiten verklaart de comparante in de statuten van de vennootschap de volgende wijziging/en aan te brengen:

(I) **Artikel 5.5** komt te luiden:

Het register wordt regelmatig bijgehouden. Alle inschrijvingen en aantekeningen in het register worden getekend door de Directeur B.

(II) **Artikel 12.1** komt te luiden:

Het bestuur van de vennootschap wordt gevormd door een Directie bestaande uit twee of meer Directeuren A, één Directeur B en twee of meer Directeuren C. Het aantal Directeuren A respectievelijk het aantal Directeuren C zal worden bepaald door de Algemene Vergadering.

SLOTBEPALINGEN AKTE VAN STATUTENWIJZIGING.

Aan deze akte worden gehecht:

- (1) het stuk waaruit blijkt dat de ministeriële verklaring van geen bezwaar is verleend op [•] tweeduizend zes, nummer N.V. 157522;
- (2) het stuk waaruit blijkt van de in de aanhef van deze akte vermelde besluiten.

De comparante is mij, notaris, bekend.

Deze akte wordt verleden te Amsterdam op de datum in de aanhef van deze akte vermeld.

Nadat de zakelijke inhoud van de akte aan de comparante is medegedeeld en daarop een toelichting is gegeven, heeft zij verklaard van de inhoud van de akte kennis te hebben genomen en met beperkte voorlezing van de akte in te stemmen.

Onmiddellijk na voorlezing van die gedeelten van de akte waarvan de wet voorlezing voorschrijft, wordt deze akte door de comparante en mij, notaris, ondertekend.

UNOFFICIAL TRANSLATION

DRAFT DEED OF AMENDMENT OF THE ARTICLES OF ASSOCIATION

OF

PYATEROCHKA HOLDING N.V.

Today, the of two thousand and six, appears before me, Jan Bouwen de Snaijer, civil law notary practising in Amsterdam:

The appearer declares that on the twelfth of May two thousand and six the general meeting of shareholders of the public limited company: **Pyaterochka Holding N.V.**, with statutory seat in Amsterdam and address: Rokin 55, 1012 KK Amsterdam, resolved to amend the articles of association of the company and to authorise the appearer to execute this deed.

The appearer declares, in giving effect to these resolutions, to make the following amendment/s in the articles of association of the company:

(I) **Article 5.5** shall read:

The register shall be kept accurate and up to date. All entries and notes in the register shall be signed by the Director B.

(II) **Article 12.1** shall read:

The management of the company shall be constituted by a Management Board consisting of two or more Directors A, one Director B and two or more Directors C. The number of Directors A and the number of Directors C respectively shall be determined by the General Meeting.

FINAL PROVISIONS DEED OF AMENDMENT OF THE ARTICLES OF ASSOCIATION.

- (1) the document evidencing the ministerial declaration of no objection was granted on the [•] of [•] two thousand and six, number N.V. 157522.
- (2) the document evidencing the resolutions mentioned in the head of this deed.

The appearer is known to me, notary.

This deed is executed in Amsterdam on the date mentioned in the heading of this deed.

After the substance of this deed and an explanation thereon have been stated to the appearer, he has declared to have taken notice of the contents of this deed and to consent to the deed not being read out in full.

Immediately after those parts of the deed that the law requires to be read out have been read out, this deed is signed by the appearer and by me, notary.

PART XVII. DEFINITIONS

The definitions set out below apply throughout this document, unless the context requires otherwise.

“Admission”	admission of the New GDRs to the Official List and to trading on the market for listed securities of the London Stock Exchange;
“AFM”	the Netherlands Authority for the Financial Markets;
“Agro-Star”	Agro-Star Joint Stock Company;
“Alfa Group”	CTF Holdings Limited and its subsidiaries from time to time;
“Alpegru”	Alpegru Retail Properties Limited;
“Amendment”	the proposed amendment to the Articles described in paragraph 7 of Part I and as set out in Part XVII;
“Articles”	the articles of association of Pyaterochka;
“banner sales”	the total revenue of all stores operating under the Pyaterochka brand, including the franchise stores;
“Board of Supervisory Directors”	the board of supervisory directors within Pyaterochka’s management structure described in paragraph 1.1 of Part VIII;
“business day”	a day on which banks are open for normal banking business in London and Amsterdam;
“Call Option Agreement”	the call option agreement dated 11 April 2006 entered into between Overture Corporation N.V., Puritan Corporation N.V. and Pyaterochka, as described in Part XI;
“Carousel” or “Carousel Group”	a group of companies controlled by the Majority Shareholders that operate the Carousel Project, which is described in paragraph 1.2 of Part IX, or, as the context requires, the brand of hypermarkets developed in the context of the Carousel Project;
“Carousel Agreement”	collectively, (i) the agreement between OOO “Rusel”, a wholly owned subsidiary of Carousel, and OOO “Agrotorg”, a wholly owned subsidiary of the Company, dated 1 February 2006, as amended and (ii) the agreement between OOO “Rusel-M”, a wholly owned subsidiary of Carousel, and OOO “Agroaspekt”, a wholly owned subsidiary of the Company, dated 1 March 2006, as amended;
“Carousel Project”	the business established by the Pyaterochka Group in 2003 to operate a chain of hypermarkets under the Carousel brand in the Moscow and St. Petersburg areas, as described in paragraph 1.2 of Part IX;
“Cash Consideration”	US\$300 million in cash being part of the consideration payable to the Perekrestok Sellers by the Company for the entire share capital of Perekrestok;
“Center Spar Ukraine”	the closed joint stock company Centre Spar Ukraine;
“Central Bank”	the Central Bank of Russia;
“Cesaro”	Cesaro Holdings Limited;
“CEO”	Chief Executive Officer;
“CFO”	Chief Financial Officer;
“CIS countries”	the member states of the Commonwealth of Independent States;
“Civil Code”	Russian Civil Code;

“Company”	Pyaterochka Holding N.V.;
“Convenience stores”	Perekrestok’s convenience store format with a trading area of approximately 400 or 600 square metres, offering a product range of up to 7,500 SKUs;
“COO”	Chief Operations Officer;
“Council”	the Council of the European Union;
“Credo-Estate”	the closed joint stock company Credo-Estate;
“CTF”	CTF Holdings Limited;
“Depositary”	The Bank of New York or any other depositary which may from time to time be appointed under the Deposit Agreement;
“Deposit Agreement”	the deposit agreement entered into between Pyaterochka and The Bank of New York dated 11 May 2005, as amended or supplemented;
“Director”	any statutory director of Pyaterochka;
“Director A”	any Director that is appointed as Director A in accordance with section 12 of the Articles. A Director A has the duties and responsibilities that are allocated to him/her under sections 15-18 of the Articles.
“Director B”	any Director that is appointed as Director B in accordance with section 12 of the Articles. A Director B has the duties and responsibilities that are allocated to him/her under sections 15-18 of the Articles.
“Director C”	any Director that is appointed as Director C in accordance with section 12 of the Articles. A Director C has the duties and responsibilities that are allocated to him/her under sections 15-18 of the Articles.
“Disclosure Act”	Dutch Disclosure of Holdings in Listed Companies Act 1996;
“Discount Invest”	LLC Discount Invest;
“Dutch Securities Act”	Dutch Supervision of the Securities Trade Act 1995;
“EBRD”	European Bank for Reconstruction and Development;
“EDI”	electronic documents interchange;
“Eligible Participants”	persons eligible for the Pyaterochka employee stock incentive plan detailed in paragraph 1.9 of Part VIII;
“Enlarged Group”	Pyaterochka and its subsidiaries from time to time following completion of the Perekrestok Transaction;
“ERP”	enterprise resource planning;
“Euro”, “€” or “EUR”	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on European Union;
“Executive Officers”	the members of Pyaterochka’s senior management team;
“Extraordinary General Meeting”	an extraordinary general meeting of the Shareholders of Pyaterochka;
“FAS”	the Federal Anti-Monopoly Service of the Russian Federation;

“FAS Consent”	the unconditional consent of the FAS to the acquisition by Pyaterochka of control of the direct or indirect subsidiaries of Perekrestok that have been established under the laws of Russia;
“FMCG”	fast moving consumer goods;
“FSA”	The Financial Services Authority of the United Kingdom;
“FSMA”	The Financial Services and Markets Act 2000;
“Finance Documents”	the facility agreement to be entered into by the Company with the lenders referred to therein consistent in all material respects with the terms of the Termsheet and together with any other documents ancillary thereto and required to raise at least US\$300 million to finance the cash element of the consideration payable for the entire share capital of Perekrestok;
“Financial Statements”	the Pyaterochka Financial Statements and the Perekrestok Financial Statements;
“Formata”	Formata Holding B.V.;
“Founding Shareholders”	Marie-Carla Corporation N.V. and Tayleforth N.V., companies controlled by Andrei Rogachev and Alex Girda;
“franchisee stores”	as the context requires, the stores operated under the Pyaterochka brand by the Pyaterochka Group’s franchisees and/or under the Perekrestok Group brands by the Perekrestok Group franchisees;
“functional currency”	the currency of the primary economic environment in which the Perekrestok Group operates;
“GDR Conditions”	the conditions of the GDRs set out in the Deposit Agreement;
“GDR Holder”	a person or entity holding one or more GDRs;
“GDRs”	the global depositary receipts issued by the Depositary under the terms of the Deposit Agreement;
“General Meeting”	a general meeting of the shareholders of Pyaterochka;
“GfK”	GfK RUS;
“Grasswell”	Grasswell Limited;
“Group”	in Part VI paragraph 1.1(d) means the Pyaterochka Group and in Part VI paragraph 1.2(c) means the Perekrestok Group;
“HSBC”	HSBC Bank plc;
“Hypermarkets”	Perekrestok’s hypermarket store format with a trading area of approximately 4,000 to 7,000 square metres, offering a product range of up to 40,000 SKUs;
“IFRS”	International Financial Reporting Standards;
“IGD”	Institute of Grocery Distribution;
“Insiders”	members of the Management Board, members of the Board of Supervisory Directors, certain key employees of the Company, or persons who are closely associated with such persons;
“IPO Prospectus”	the prospectus issued by Pyaterochka relating to the global offering of 11,492,036 Pyaterochka Ordinary Shares in the form of 45,968,144 GDRs dated 6 May 2005;

“JSC”	Joint Stock Company; which has the same meaning as “ZAO”;
“Katukovo”	LLC Katukovo;
“KVIs”	known value items;
“Land Code”	Russian Land Code;
“LEK Estate”	the LEK Estate group of companies;
“Leningrad oblast”	the administrative region immediately surrounding the city of St. Petersburg;
“LIBOR”	London Inter Bank Offering Rate;
“Listing”	listing of the New GDRs on the Official List of the UKLA;
“Listing Rules”	the listing rules published by the UK Listing Authority, as amended;
“LLC”	limited liability company which has the same meaning as “OOO”;
“Loan Notes”	the loan notes to be issued by Pyaterochka to the Perekrestok Sellers for a sum equal to US\$300 million, due for payment 60 calendar days after the date on which the Perekrestok Acquisition Agreement closes, or if such a date is not a business day, on the next business day, and accruing interest at the rate of LIBOR plus 3.75 per cent;
“Loksimer”	the closed joint stock company Loksimer;
“London Stock Exchange”	the London Stock Exchange plc;
“Long Stop Date” or “Pyaterochka Long Stop Date”	22 June 2006;
“Luckyworth”	Luckyworth Limited, a majority owned subsidiary of Alfa Group with the remaining shares held by certain members of Perekrestok’s management;
“Macromir”	LLC Macromir;
“Management Board”	the Management Board within Pyaterochka’s management structure described in paragraph 1.2 of Part VIII;
“Master GDRs”	Master GDRs as defined in the Deposit Agreement;
“Media 5”	LLC Media 5;
“Media 5M”	LLC Media 5M;
“MICEX Stock Exchange”	the Moscow MICEX Stock Exchange;
“Moscow oblast”	the Russian administrative region immediately surrounding the city of Moscow;
“Moscow area”	the area comprising Moscow and the Moscow oblast;
“Mosregioninvest”	LLC Mosregioninvest;
“MSKB”	LLC MSKB;
“Netherlone”	Netherlone Limited;
“New GDRs”	63,253,012 GDRs which may be issued pursuant to the Perekrestok Transaction for which Admission may be sought;
“New Pyaterochka Shares”	the 15,813,253 new Pyaterochka Shares to be issued in the form of New GDRs as part of the consideration for the Perekrestok Transaction;
“New Shareholders”	Cesaro and Luckyworth;

“Official List”	the official list of the FSA;
“OFR”	operating and financial review;
“Operating Companies”	the six wholly owned operating subsidiaries of the Company listed in paragraph 1.1 (excluding Speak Global) of Part XIV;
“Option Plan”	the Company’s option plan dated 16 August 2005, as amended;
“Panama Sunshine”	Panama Sunshine Foundation, S.A.;
“Perekrestok-2000”	LLC Perekrestok-2000;
“Perekrestok” or “Perekrestok Group”	Perekrestok Holdings Limited and, as the context requires, the companies it controls or which are otherwise included in Perekrestok’s audited consolidated financial statements;
“Perekrestok Acquisition Agreement”	the sale and purchase agreement dated 11 April 2006 entered into between the Perekrestok Sellers and Pyaterochka relating to the acquisition of the entire issued share capital of Perekrestok by Pyaterochka in exchange for cash consideration and the issue of shares in Pyaterochka to the Perekrestok Sellers, as described in paragraph 1.1 of Part XI;
“Perekrestok Financial Statements”	Perekrestok’s audited consolidated financial statements in respect of the financial years ended 31 December 2005 and 31 December 2004 respectively included in this document;
“Perekrestok Sellers”	Templeton and Luckyworth;
“Perekrestok stores”	the stores operated by Perekrestok excluding the franchisee stores;
“Perekrestok Transaction”	the proposed acquisition of the entire issued share capital of Perekrestok from the Perekrestok Sellers by Pyaterochka contemplated by the Perekrestok Acquisition Agreement;
“PricewaterhouseCoopers”	PricewaterhouseCoopers LLP;
“PRL”	Perekrestok Royalties Ltd.;
“Prospectus”	the prospectus to be issued by the Company in relation to the Admission;
“Proposal”	the draft proposal for the implementation of the Take-Over Directive published by the Dutch government on 31 March 2005;
“Promstroibank”	the Industry and Construction Bank;
“Pyaterochka” or “Pyaterochka Group” or the “Company”	Pyaterochka Holding N.V. and, as the context requires, the companies it controls or which are otherwise included in the Company’s audited combined and consolidated financial statements;
“Pyaterochka Agreement”	the sale and purchase agreement dated 11 April 2006 entered into between the Founding Shareholders and Alfa Group relating to the acquisition by Alfa Group of a shareholding in Pyaterochka;
“Pyaterochka Financial Statements”	Pyaterochka’s audited combined and consolidated financial statements in respect of the financial years ended 31 December 2005, 2004 and 2003 included in this document;
“Pyaterochka Shares”	ordinary shares of €1.00 in the capital of Pyaterochka;
“Pyaterochka Sellers”	Marie-Carla Corporation N.V. and Tayleforth N.V.;

“Pyaterochka stores”	the stores operated by Pyaterochka excluding the franchise stores;
“Pyaterochka Transaction”	the purchase by Alfa of 14,536,032 Pyaterochka Shares from the Pyaterochka Sellers for a total cash consideration of US\$1,178 million in cash;
“RAS”	Russian accounting standards;
“Rathmine”	Rathmine Holdings Limited;
“RetailTorg”	LLC RetailTorg NK;
“Rosstat”	Russian State Statistics Committee;
“Rumyantsevo”	LLC Rumyantsevo;
“RUR” or “Rouble” or “RR”	the lawful currency for the time being of Russia;
“Russian Patent Agency”	Russian Federal Service for Intellectual Property, Patents and Trademarks;
“Sberbank”	the Savings Bank of the Russian Federation;
“Securities Act”	United States Securities Act 1933, as amended;
“Settlement and Adjustment Agreement”	agreement dated 11 April 2006 between Tayleforth N.V., Cesaro, Luckyworth, Templeton, Pyaterochka and Fortis Bank (Nederland) N.V. relating to closing of the Perekrestok Acquisition Agreement and the Pyaterochka Agreement;
“Shareholder”	a holder of a Pyaterochka share or Pyaterochka shares;
“SKUs”	stock-keeping units;
“Sladkaya Zhizn’”	LLC Sladkaya Zhizn’;
““soft” discount stores” or “soft discounters”	terminology used by IGD to refer to a type of modern grocery retail format;
“Spar Middle Volga”	the closed joint stock company Spar Middle Volga;
“Speak Global”	Speak Global Ltd;
“SRT”	OOO Set Roznichnoy Torgovli;
“STD-Holding”	the closed joint stock company STD-Holding;
“St. Petersburg area”	the area comprising St. Petersburg and the Leningrad oblast;
“Supermarket”	Perekrestok’s supermarket store format with a trading area of approximately either 800, 1200 or 1600 square metres, offering a product range of up to 20,000 SKUs;
“Take-Over Directive”	Directive 2004/25/EC;
“Tax Code”	Tax Code of the Russian Federation, as amended;
“Termsheet”	the commitment letter and summary of terms attached thereto approved by the lenders referred to therein signed on or about the date of the Perekrestok Acquisition Agreement;
“TH Perekrestok”	the closed joint stock company Trade House Perekrestok;
“Transparency Directive”	Directive 2004/109/EC;
“Transaction Documents”	the Perekrestok Agreement, the Pyaterochka Agreement and the Finance Documents, the Call Option Agreement in Part XI of this Document;
“UAT”	OOO Ural-Agro-Torg;
“US\$” or “US dollars”	the currency of the United States of America;
“US” or “United States” or “United States of America”	United States of America, its territories and possessions, any state of the United States and the District of Columbia;

“UKLA” or “UK Listing Authority”	the FSA acting in its capacity as the competent authority for the purposes of Part IV of the FSMA and in exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part IV of FSMA;
“VAT”	value-added tax; and
“Zevs-T”	the closed joint stock company Trade Complex Zevs-T.

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