Pyaterochka Holding N.V.
(formerly known as Balt Adler Optimart B.V.)
Amsterdam

Annual report 2004

July 29, 2005

Pyaterochka Holding N.V.
Amsterdam

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Pyaterochka Holding N.V.
Amsterdam

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Pyaterochka Holding N.V.
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Profile

Pyaterochka is the largest grocery retailer in Russia in terms of sales and as at 31 December 2004 operated a chain of 235 stores, of which 124 stores were located in the Moscow area and 111 stores were located in the St. Petersburg area.

In addition, the Group's franchisees operated 207 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 31 December 2004.

For the year ended 31 December 2004, the Group had revenue of approximately USD1.1 billion and its customers made over 196 million visits to the Group's stores. In 2004, the stores operating under the Pyaterochka brand had gross banner sales approaching USD1.6 billion. The Group's stores are "soft" discount stores, open seven days a week from 9am to 10pm, offering up to 3,500 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 Group's stores is approximately 1000 square metres, with a selling area of approximately 620 square metres.

Pyaterochka Holding N.V., which has its statutory seat is in Amsterdam, The Netherlands, is the holding company of the Group and the parent company of six operating subsidiaries which are incorporated in Russia and wholly owned by the Dutch company and through which the Group manages its stores and franchising programme. Speak Global, a company incorporated in Cyprus, has become a wholly owned subsidiary of the company in March 2005 and is the owner of the Pyaterochka trademark in Russia.

The average number of employees for the year ended 31 December 2004 was 11.559.

Objectives

Pyaterochka's strategy is to maintain profitable growth in the discount segment of the Russian grocery retail market by focusing on its core regional markets, as well as expanding into other Russian regions and neighbouring countries through acquisitions and franchising.

The management of the company intends to enhance further the group's profitability by increasing the proportion of private label goods in Pyaterochka's product range and by using its increased purchasing power to achieve further cost efficiencies.

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Report of the management board

Activities

General

The Group was incorporated as a limited liability company under the laws of the Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. On 28 May 2004 the articles of association were amended, consisting of the change of name and the conversion into a public company with limited liability. The principal activity of the Group is to act as a holding and finance company.

New store openings

During the periods under review, the Group has pursued an aggressive store expansion strategy, with the number of its stores growing from 135 stores (2002) to 235 stores (2004). The following table presents the number of stores operated by the Group as at 31 December 2002, 2003 and 2004, presented by area:

As at 31 December	**2002**	**2003**	**2004**
Area			
Moscow area	55	97	124
St. Petersburg area	80	92	111

Macroeconomic trends

Nearly all of the Group's operations are located in Russia. As a result, Russian macroeconomic trends significantly influence the Group's results of operations. Since 1998, Russia has experienced economic growth, with declining consumer price inflation (which, according to Rosstat, declined from 15.1 per cent in 2002 to 11.7 per cent in 2004), decreasing unemployment levels (which, according to Rosstat, decreased from 12.6 per cent in 1999 to 7.6 per cent in 2004), and increasing personal disposable incomes (according to Rosstat, the nominal average monthly wage in Russia has increased to RUR 5,286.38 (USD 190.50) in 2004 from RUR 4,148.63 (USD 149.50) in 2002). The management of the Group believes that these macroeconomic factors have contributed to the increasing purchasing power of the Group's customer base, which resulted in increasing sales volumes and growth in like-for-like revenue at the 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 Group's increased like-for-like revenue in US dollar terms (based on the exchange rate quoted by the Central Bank, the Rouble has appreciated by approximately 9.4 per cent. against the US dollar from 2002 to 2004). See "Russian Grocery Retail Industry – Russian economy, consumer spending and retail market".

Expansion of the Group's franchise operations

The Group receives revenue from its franchisees as up-front, one-time payments and monthly fees under the franchise agreements. The first franchised stores under the Pyaterochka brand were opened at the end of 2002. The number of the Group's franchisees increased significantly in 2003 and 2004, with the number of franchised stores in operation under the Pyaterochka brand reaching 207 as at 31 December 2004. The increase in the number of the Group's franchise stores has resulted in an increase in payments received by the Group as up-front payments and monthly fees under the franchise agreements, which has contributed to the Group's revenue in 2003 and 2004. In the medium term, the management of the Group expects to enter into additional franchise agreements and for the number of stores operated by its franchisees to increase. The 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 Group's franchise network is expected to contribute further to the Group's revenue.

Purchasing policies

The management of the Group believes that the Group is a significant client to many of its suppliers, including international FMCG companies. This status is further enhanced as the Group achieves most of its revenue from a limited range of products. The management of the Group believes that, during the periods under review, the 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 Group's cost of sales.

Private label goods

The management of the Group believes that the 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 9 per cent of the Group's revenue in 2004. The Group has plans to increase the percentage of private label goods it sells to 50 per cent of its revenue by the end of 2008. 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 Group during the periods under review has had the effect of decreasing the Group's cost of sales and improving the Group's gross margin. According to the Group, the gross margin generated by private label goods is on average 7 per cent higher than that generated by other branded goods sold in the Group's stores.

Improved warehousing and distribution

During the periods under review, the 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 from its suppliers. This has resulted in lower delivery costs and, consequently, affected cost of sales. In 2003, the Group built a 10,500 square meter consolidated warehouse and distribution centre in St. Petersburg. In Moscow, the Group currently uses three rented warehouses with a total space of 19,500 square metres. In 2004, deliveries via the Group's distribution centres represented 50 per cent of all deliveries to the Group's stores in the St. Petersburg area, and 35 per cent of all deliveries in the Moscow area. The management of the Group believes that the introduction and use of the Group's own newly built distribution capacity as opposed to rented warehouses has helped to reduce the 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 Group's stores and to operate the leased warehouses. The management of the Group expects that, beginning in 2005, the Group will require its suppliers delivering their goods to the Group's distribution centres (and not directly to the stores) to pay the Group a logistical bonus (in the form of a rebate offsetting the supply price or as a payment to the Group). Such bonuses, when introduced, are expected to have the effect of reducing the Group's cost of sales and increasing the Group's gross margin.

Recent developments

The Group's store opening plans for 2005, which contemplate the opening of 20 new stores in the St. Petersburg area and 50 new stores in the Moscow area, should, if implemented, increase the Group's revenue, capital expenditure and cost of sales for the year ending 31 December 2005.

The management of the Group anticipates continued growth in revenue during 2005 in line with its programme of opening new stores, and believes that a larger proportion of the Group's annual revenue for 2005 is likely to be achieved during the second half of the year.

The Group has initiated discussions with certain of its franchisees with a view to commencing, from 2006, a programme of purchasing equity stakes of approximately 25 per cent in the companies operating the businesses of its franchisees. Although the terms and extent of this programme have not been finalised, the management of the Group expects that this programme, if carried out, will affect the Group's financial results in the future by, among other things, increasing capital expenditure.

For subsequent events we refer to additional information to the financial statements, section subsequent events.

Year ended 31 December 2004 compared to the year ended 31 December 2003

Revenue

The Group's revenue increased by 37.0 per cent, to RUR 31.831.588 thousand (USD1.105.803 thousand), for the year ended 31 December 2004 from RUR 23.235.320 thousand (USD 759.584 thousand) for the year ended 31 December 2003. The increase in revenue was principally the result of opening new stores (the number of the Group's stores increased to 235 as at 31 December 2004 from 189 as at 31 December 2003, resulting in an increase in the Group's aggregate selling area to 146,000 square metres as at 31 December 2004 from 116,000 square metres as at 31 December 2003). The increase in revenue was also due to an increase in royalty payments received from the Group's franchisees. Revenue received from franchisees increased by 57.4 per cent to RUR 140.450 thousand (USD 4.875 thousand) in the year ended 31 December 2004 from RUR 89.212 thousand (USD 2.916 thousand) in the year ended 31 December 2003.

Cost of sales

Cost of sales increased by 30.8 per cent, to RUR 24.763.210 thousand (USD 860.356 thousand), for the year ended 31 December 2004 from RUR 18.931.533 thousand (USD 619.304 thousand) 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 growth in sales volumes on a like-for-like basis.

Gross profit

The Group's gross profit increased by 64.2 per cent, to RUR 7.068.378 thousand (USD245.447 thousand), for the year ended 31 December 2004 from RUR 4.303.787 thousand (USD 140,280 thousand) for the year ended 31 December 2003. The increase in gross profit was due to higher revenue and an increase in the Group's gross margin, which increased by 3.7 percentage points to 22.2 per cent. for the year ended 31 December 2004 from 18.5 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 Group's suppliers as well as, to a lesser extent, an increased share of private label sales in the overall revenue of the Group.

Selling, general and administrative expenses

The Group's selling, general and administrative expenses increased by 78.1 per cent, to RUR 5.885.749 thousand (USD 204.295 thousand), for the year ended 31 December 2004 from RUR 3.305.497 thousand (USD 107.741 thousand) for the year ended 31 December 2003. The increase in expenses was primarily due to an increase in payroll costs and related taxes (resulting primarily from salary increases), an increase in rent (resulting from the opening of stores by the 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 Group, acquisition of immovable property and new equipment by the Group for its stores and warehouses) and an increase of royalties paid. This was offset in part by a decrease in taxes for the year ended 31 December 2003 (which was a result primarily of the abolition of the Russian Federation road users' tax).

Operating profit and operating margin

Operating profit increased by 18.5 per cent, to RUR 1.182.629 thousand (USD 41.152 thousand), for the year ended 31 December 2004 from RUR 998.290 thousand (USD 32.539 thousand) for the year ended 31 December 2003. This was due to a substantial increase in the 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.

Profit before income tax

Profit before income tax increased by 12.4 per cent, to RUR 1.094.777 thousand (USD 38.102 thousand), for the year ended 31 December 2004 from RUR 973.972 thousand (USD 31.746 thousand) for the year ended 31 December 2003. The increase was due primarily to the substantial increases in the Group's operating profit, marginally offset by an increase in finance costs for the year ended 31 December 2004.

Income tax expense

Income tax expenses increased by 87.9 per cent, to RUR 495.161 thousand (USD 17.187 thousand), for the year ended 31 December 2004 from RUR 263.463 thousand (USD 8.587 thousand) for the year ended 31 December 2003.

Net profit

Net profit decreased by 15.6 per cent, to RUR 599.616 thousand (USD 20,915 thousand), for the year ended 31 December 2004 from RUR 710.509 thousand (USD 23.159 thousand) for the year ended 31 December 2003. This was principally a result of growth in the Group's profit before income tax, offset in part by a substantial increase in the Group's income tax expense.

Amsterdam, July 29, 2005

Oleg Vysotsky	Anzhelika Li
Chief Executive Officer	Chief Financial Officer
Victor Beliakov	Wim G. Rieff
Managing Director	Managing Director

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Advice from the advisory board

We hereby present you the annual report of Pyaterochka Holding N.V. as prepared by the Management Board.

The annual report is examined by Deloitte and in conformity with the advice of the Management Board approved by our Board.

We advice you to adopt the annual report 2004 as presented to you and further to approve the transfer of the financial results for the year 2004 to the other reserves and to grant full discharge to the Management Board and the Supervisory Board for their management respectively their supervision of the management for the year under review.

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Risk management

Risk management is a core part of Pyaterochka's business and has an impact on all areas of management. To ensure that these risks are measured, monitored and managed properly at all times, Pyaterochka has in place a strong organisational structure for internal control and risk management.

Ultimately the Management Board is responsible for internal control at Pyaterochka and for reviewing its effectiveness. Under the authority delegated by ther Management Board, the management teams of the subsidiaires are responsible for designing internal control systems appropriate to their respective businesses and for monitoring their effectiveness. As such the management teams are responsible for setting clear objectives, for maintaining strong control awareness and creating appropriate organisational structures, for indentifying, assessing and monitoring the risks, for the effectiveness of all processes, including the internal control processes, and for reporting on all these matters.

Based on the information received, the Management Board considers that to the best of their kownledge, throughout the year ended 31 december 2004 and to date, Pyaterochka has operated risk and control systems which are appropriate for the size and needs of Pyaterochka and can reasonably be expected to provide reliable insight into the effectiveness and efficiency of operations, reliable financial and other information.

We refer to note 19 to the financial statements regarding the risk management policies

Corporate governance

Developments

Important developments on the corporate governance front occurred in 2004.

Transparent and effective administration, including adherence to high ethical standards, is absolutely crucial to the Pyaterochka Group. Effective corporate governance should support operational development, while helping to manage risks as effectively as possible. It is a constantly revolving process and responds to the needs of the organisation and to international best practice.

In The Netherlands, the corporate governance code drafted by a committee chaired by Morris Tabaksblat came into force on 1 January 2004. An administrative order was published on 23 December 2004, requiring listed companies incorporated under Dutch law to report their compliance with the code in future annual financial statements.

Since the company has a listing as of 11 May 2005, the company agreed to a new policy in order to be in compliance with the Dutch Corporate Governance Code. The general meeting on 4 March 2005 approved the new articles of association; the text of these Articles of Association have been made much more accessible and transparent.

Other changes related to the powers of the General Meeting of Shareholders. Henceforward, a single shareholders or a group of shareholders representing at least a tenth of the authorised capital can ask for an Extraordinary General Meeting to be convened. Shareholders representing at least 1 % of the issued capital or holding Pyaterochka's shares with a market value of at least USD 19.920 thousand can propose the inclusion of agenda points for the annual General Meeting of Shareholders. The General Meeting will also be consulted in future regarding adjustments to managing directors' remuneration policy or important decisions affecting the company's identity.

As required by Dutch law and the recommendations of Dutch Corporate Governance Code, this chapter includes a review of Pyaterochka's compliance with the corporate governance principles set out under the Dutch governance codes. What follows is a summary of the governance principles and practices at Pyaterochka.

Management board

The Management Board consist of four members. The Management Board operates within the framework created by Dutch legislation, normal pratices in The Netherlands and the Articles of Association.

Composition

The Management Board consists in 2004 of one person, Mr Wim G. Rieff. In March 2005, the Board was able to welcome new members, Oleg Vysotsky, Anzhelika Li and Victor Beliakov. Oleg Vysotsky was appointed Chief Executive Officer and Anzhelika Li, Chief Financial Officer.

Mr. Rieff was also appointed Group Secretary. Members of the board are appointed for a maximum period of four years which period can be extended with a maximum of four years each time.

Meetings

The Management Board intends to meet at least 6 times per year. As appointments took place in March 2005, attendance details will follow next year.

Rules concerning inside information

The Group will adopt rules of conduct with regard to Inside Information in order to avoid that privileged information may be used. These rules will be adopted by the Management Board.

Supervisory board

The Supervisory Board consisted in 2004 of Mr. Alexander Rogachev, Mr. Alexander Girda, Mrs Tatiana Franous, Mr. Igor Vidiaev, Mr. Victor Beliakov, Mr. Oleg Vysotsky and Mr. David Noble. At the Extraordinary Meeting of Shareholders held on 18 February 2005, Mr. Oleg Vysotsky and Victor Beliakov resigned as Supervisory Board members. Mr. Vysotsky was appointed Chief Executive Officer and Mr. Beliakov as member of the Management Board.

Committees

Four Committees have been set up in the first half year of 2005. The Remuneration Committee, the Audit Committee, the Conflicting Interest Committee as well as the Selection- and Appointment Committee.

The Remuneration Committee has been installed and advises regarding the compensation to be paid to members of the Management Board.

The Audit Committee assists the Supervisory Board in fulfilling its supervision and monitoring responsibilities in respect of internal control in the broadest sense within the Group, including internal control over financial reporting and advises in respect of the appointment of the auditor and its remuneration.

The Conflicting Interest Committee advises in regard of transactions to be concluded by the Group's officials.

The Selection- and Appointment Committee advises in respect of the selection and appointment of supervisory and management board members.

The composition of the four committees is as follows:

Remuneration Committee:	David Noble (chairman)	Alexander Girda
Audit Committee	David Noble (chairman)	Tatiana Franous
Conflicting Interest Committee:	David Noble (chairman)	Igor Vidiaev
Select and Appointment Committee:	David Noble (chairman)	Andrey Rogachev

Corporate governance code

As largest grocery retailer in Russia with a listing at the London Stock Exchange, Pyaterochka Holding N.V. wants to adhere to the principles as set out in the Dutch Corporate Governance Code. The Group will enter into a Corporate Governance Charter for the Management and the Supervisory Board.

Pyaterochka and the Dutch Corporate Governance Code

Dutch law was recently amended in such a way that listed companies incorporated under Dutch law will henceworth be obliged to declare in their annual financial statements that they have adhered to the Tabaksblat Code or to explain any instances in which they have deviated from it. The following sections serves that purpose.

It should be stated at the outset that Pyaterochka seeks to comply with the Tabaksblat Code to the maximum possible extent. The amendment of the articles of Association in March 2005 and the installation of all Committees for instance were all inspired by the Tabaksblat Code.

Pyaterochka is unable, however, to comply with all of the Code's provisions. For instance not all members of the Supervisory Board are to be considered independent. It is foreseen that in the foreseeable future an independend member of the Supervisory Board will be appointed.

Bearing in mind the qualifications expressed above, Pyaterochka states that the principles and best practice provisions of the Tabaksblat Code have been met, with the following exceptions.

Since the four committees mentioned above have only been installed in 2005 reporting will take place as of 2005. As of 2005 will be reported how many meetings have been held and if Board members were present. This will also apply to the Supervisory Board meetings as of 2005.

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As of 2005 the Management board shall submit to the Supervisory Board for approval, objectives, strategy and parameters.

In 2004 there was no formal discussion by the Supervisory Board of its own and its member's functioning, and both the functioning of the Management Board as a body and performance.

Amsterdam, 29 July 2005

Supervisory Board

Mr David Noble, chairman	Mr. Andrey Rogachev
Mr. Alexander Girda	Mrs Tatiana Franous
Mr. Igor Vidiaev	

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Financial statements

'December 31, 2004

2003 RUR 000	2004 USD 000	2003 USD 000
262.876	3.950	8.925
3.600.714	198.261	122.247
908.353	38.679	30.839
4.771.943	240.890	162.011
42.799	2.870	1.453
4.814.742	243.760	163.464
1.073.282	39.778	36.439
954.516	110.310	32.406
422.257	10.162	14.336
2.450.055	160.250	83.181
7.264.797	404.010	246.645

	notes	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Group equity and liabilities					
Group equity	9	3.271.988	2.736.636	117.915	92.911
Provisions					
Deferred tax liability	10	341.841	289.754	12.319	9.837
Long-term liabilities					
Long-term loans	11	1.071.361	345.473	38.609	11.729
Long-term obligations under financial lease	12	98.401	41.597	3.546	1.412
		1.169.762	387.070	42.155	13.141
Short-term liabilities					
Accounts payable		3.439.191	2.662.070	123.941	90.380
Short-term loans	13	902.352	292.404	32.519	9.927
Other payables and accrued expenses	14	2.085.622	896.863	75.161	30.449
		6.427.165	3.851.337	231.621	130.756
		11.210.756	7.264.797	404.010	246.645

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Consolidated income statement for the year 2004

	notes	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Revenues		31.831.588	23.235.320	1.105.803	759.584
Cost of sales		(24.763.210)	(18.931.533)	(860.356)	(619.304)
Gross profit		7.068.378	4.303.787	245.447	140.280
Selling, general and administrative expenses	15	(5.885.749)	(3.305.497)	(204.295)	(107.741)
Operating result		1.182.629	998.290	41.152	32.539
Interest expenses	16	(116.776)	(35.914)	(4.053)	(1.170)
Foreign exchange result		28.924	11.596	1.003	377
		(87.852)	(24.318)	(3.050)	(793)
Result before taxation		1.094.777	973.972	38.102	31.746
Income taxes	10	(495.161)	(263.463)	(17.187)	(8.587)
Net result for the year		599.616	710.509	20.915	23.159
Average number of common shares of Pyaterochka Holding N.V. outstanding	2	38.306.785	38.306.785	38.306.785	38.306.785
Earnings per share	2	15,65	18,55	0,55	0,60

See notes to the consolidated financial statements.

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Consolidated statement of changes in shareholders' equity for the year ended December 31, 2004

		Share capital RUR 000	Share premium RUR 000	Revalua-tion reserve RUR 000	Retained earnings RUR 000	Translation reserve RUR 000	Total shareholders' equity RUR 000
Balance as of January 1, 2003		11.696	172.394	733.249	1.176.788	-	2.094.127
Share issue	9	1.256.226	-	-	(1.256.226)	-	-
Net profit		-	-	-	710.509	-	710.509
Dividends paid	9	-	-	-	(68.000)	-	(68.000)
Currency translation reserve		128.276	-	-	-	(128.276)	-
Balance as of December 31, 2003		1.396.198	172.394	733.249	563.071	(128.276)	2.736.636
Dividends paid	9	-	-	-	(66.532)	-	(66.532)
Net profit		-	-	-	599.616	-	599.616
Currency translation reserve		-	-	-	-	2.268	2.268
Balance as of December 31, 2004		1.396.198	172.394	733.249	1.096.155	(126.008)	3.271.988

		Share capital USD 000	Share premium USD 000	Revalua-tion reserve USD 000	Retained earnings USD 000	Translation reserve USD 000	Total shareholders' equity USD 000
Balance as of January 1, 2003		368	5.425	23.073	37.019	-	65.885
Share issue	9	42.650	-	-	(42.650)	-	-
Net profit		-	-	-	23.159	-	23.159
Dividends paid	9	-	-	-	(2.309)	-	(2.309)
Currency translation reserve		4.384	428	1.821	3.898	(4.355)	6.176
Balance as of December 31, 2003		47.402	5.853	24.894	19.117	(4.355)	92.911
Dividends paid	9	-	-	-	(2.317)	-	(2.317)
Net profit		-	-	-	20.915	-	20.915
Currency translation reserve		2.914	360	1.530	1.788	(186)	6.406
Balance as of December 31, 2004		50.316	6.213	26.424	39.503	(4.541)	117.915

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Consolidated statement of cash flows for the year 2004

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Operating activities:				
Profit before income tax	1.094.777	973.972	38.102	31.746
Adjustments for:				
Depreciation of property, plant and equipment	415.609	249.889	14.423	8.145
Amortization of long-term prepayments	3.256	5.166	113	168
Loss on disposal of property, plant and equipment	13.672	8.341	474	272
Change in provision for doubtful receivables	19.435	15.999	739	521
Foreign exchange differences on dividends	2.268	-	79	-
Change in provision for obsolete inventory	10.871	(7.304)	394	(238)
Interest expense	139.954	38.469	4.858	1.254
Operating cash flow before movements in working capital	1.699.842	1.284.532	59.182	41.868
Increase in other receivables	(577.479)	(425.169)	(28.167)	(13.858)
Decrease/(increase) in inventories	(41.388)	(377.301)	(3.733)	(12.298)
Increase in trade accounts payable	777.120	1.140.720	33.562	37.181
Increase in other payables and accrued expenses	1.193.168	762.018	44.712	24.838
Cash provided by operations	3.051.263	2.384.800	105.556	77.731
Income tax paid	(477.156)	(221.841)	(16.559)	(7.228)
Interest paid	(147.114)	(28.496)	(4.788)	(929)
Net cash provided by operating activities	2.426.993	2.134.463	84.209	69.574
Investing activities:				
Purchase of property, plant and equipment	(2.267.949)	(1.941.939)	(78.708)	(63.297)
Construction in progress	(645.429)	(112.946)	(22.399)	(3.681)
Construction in progress - hypermarkets	(911.586)	-	(31.636)	-
Proceeds on disposal of property, plant and equipment	40.548	36.387	1.407	1.186
Purchase of intangible fixed assets	(6.302)	(94.888)	(219)	(3.093)
Proceeds on disposal of other assets	-	-	-	-
Net cash used in investing activities	(3.790.718)	(2.113.386)	(131.555)	(68.885)

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Financing activities:				
Proceeds from bank loans	1.974.493	1.030.601	68.535	33.581
Repayments of bank loans	(620.366)	(847.184)	(21.533)	(27.355)
Net increase / (decrease) in bank overdrafts	(18.291)	144.918	(641)	4.722
Repayment of obligations under finance leases	(45.863)	(22.254)	(1.592)	(725)
Dividends paid	(66.532)	(68.000)	(2.317)	(2.216)
Net cash from financing activities	1.223.441	238.081	42.452	8.007
Effect of foreign exchange rates on cash and cash equivalents	-	3.940	720	633
Net increase in cash and cash equivalents	(140.284)	263.098	(4.174)	9.329
Cash and cash equivalents, beginning of year	422.257	159.159	14.336	5.007
Cash and cash equivalents, end of year	281.973	422.257	10.162	14.336

Notes to the consolidated financial statements

1. General

Nature of the business

Pyaterochka Holding N.V. ("the Group") is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Group is to act as a holding and finance company for the group of companies that act under the "Pyaterochka" name in St. Petersburg and Moscow.

The consolidated financial statements comprise the financial statements of Pyaterochka Holding N.V., together with its wholly-owned subsidiaries: LLC Agroaspekt, LLC Agrotorg, LLC Agroavto, ZAO Agrostar, ZAO Zeiser and ZAO Remtransavto and their respective subsidiaries (collectively: "the Group"). All companies of the Group are under common control, either directly or based on contractual arrangements, and are economically linked. All the subsidiaries are incorporated in the Russian Federation and were established in the period between 1997 and 2002.

The principal shareholders of Pyaterochka Holding N.V. are Marie-Carla Corporation N.V. (with 51.28% shareholding) and Tayleforth N.V. (with 48.72% shareholding), the companies established under the laws of Netherlands Antilles. The ultimate beneficial interests are held indirectly by a group of individuals through Marie-Carla Corporation N.V., Tayleforth N.V. and other companies and trusts.

The Group's principal business activities are within the Russian Federation. As of 31 December 2004, "Pyaterochka" retail chain operated 111 stores in St. Petersburg and 124 in Moscow under the brand name "Pyaterochka".

2. Presentation of financial statements

Basis of presentation

The financial statements are prepared in accordance with generally accepted accounting principles in the Netherlands as well as International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") per December 31, 2004 and interpretations by the interpretations committee of the IASB as per December 31, 2004.

The financial statements of the Group are prepared on the historical cost basis, except for:

- valuation of property, plant and equipment in accordance with both IAS No. 16 "Property, Plant and Equipment" ("IAS 16") and IAS No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29");

Assets and liabilities are stated at face value, unless indicated otherwise.

Income and expenses are accounted for on an accrual basis. Income is only included when realized. Loss contingencies, which can be reasonably estimated, are taken into account if, prior to preparation of the financial statements, information has become available that an asset had been impaired or a liability had been incurred at balance sheet date.

Restatement of 2003 comparative figures

The comparative figures have been restated in order to conform to current year's presentation and disclosures and in order to realign the currency exchange rates used by the Russian operating companies and the exchange rates used by the Dutch holding company.

Use of estimates and assumptions

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the Netherlands as well as 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.

Hyperinflationary accounting

The principal operations of the Group are based in the Russian Federation. Before January 1, 2003, the economy of the Russian Federation was considered to be a hyperinflationary economy in terms of IAS No. 29 "Financial Reporting in Hyperinflationary Economies".

Cessation of hyperinflation in the Russian Federation

The characteristics of the economic environment of the Russian Federation indicate that it has ceased to be hyperinflationary. Accordingly, with effect from January 1, 2003 the Group discontinued application of the provisions of IAS 29 and the carrying amounts of all non-monetary assets, liabilities and shareholders' equity at December 31, 2002 are thereafter treated as the basis for the carrying amount in the Group's consolidated financial statements for subsequent periods.

Measurement currency

The measurement currency of the accompanying consolidated financial statements is the Russian Rouble (RUR) as adjusted for hyperinflation where applicable. The Russian Rouble is not a fully convertible currency outside of the territory of the Russian Federation.

Presentation currency

The Group has chosen to also present these financial statements in US dollars (USD) for the convenience of users. The translation of Rouble denominated assets and liabilities into US dollars for the purpose of these financial statements does not indicate that the Group could or will in the future realize or settle in US dollars the translated values of these assets and liabilities.

Conversion of measurement currency into presentation currency

The restatement of the financial statements from the measurement currency to the presentation currency is done in accordance with the requirements of SIC-30 "Reporting Currency – Translation from Measurement Currency to Presentation Currency". Generally the requirements state that when financial statements are presented in a currency other than the measurement currency and the measurement currency is not a currency of hyperinflationary economy, assets and liabilities for all balance sheets presented are translated at the closing rate existing at the date of each balance sheet presented; income and expense items for all periods presented are translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates; equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the date of each balance sheet presented; and all exchange differences resulting from translation are recognized directly in equity.

The cash flow statement has been prepared in the functional currency, the Russian rouble, with a translation for the convenience of the user at the average exchange rate, with exchange differences resulting from translation recognized against the effect of foreign exchange rates on cash and cash equivalents.

	USD/RUR	EUR/RUR
Average rate for 2004	28.8100	35.8328
31 December 2004	27.7487	37.8510
Average rate for 2003	30.6800	34.6654
31 December 2003	29.4545	36.8240

Concentration of business risk

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

Segment reporting

As the Group's operations are all related to one segment, no separate segment information has been included.

Summary of significant accounting principles

Principles for consolidation

The consolidated financial statements include the accounts of Pyaterochka Holding N.V. and the group companies of Pyaterochka Holding N.V.

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 consolidated financial statements of the Group.

All significant intercompany balances and transactions have been eliminated.

Assets and liabilities and transactions

Assets and liabilities denominated in foreign currencies are translated into the applicable local currencies at exchange rates prevailing on balance sheet date. Foreign currency transactions are translated at exchange rates prevailing on the date of transaction. Resulting foreign currency exchange results are included in the income statement.

Financial statements of subsidiaries denominated in foreign currencies are translated into the presentation currency, the US dollar, at the exchange rates prevailing on balance sheet date in respect of assets and liabilities, whereas revenues, expenses, gains and losses are translated into the reporting currency at the average exchange rate for the year. Resulting foreign currency gains and losses are included in the cumulative translation adjustment as part of shareholders' equity.

Property, plant and equipment

Property, plant and equipment is stated at cost as modified by the application of IAS 29.

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 is January 1, 2002. The basis for valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined at their market value. However, as most of the property, plant and equipment is of specialized nature, they were valued at their depreciated replacement cost. For each item of property, plant and equipment, its new replacement cost was then adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence, in arriving at the fair value of the asset.

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

Deprecation 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, acquired subsequent to valuation date, which are:

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

Land is not being depreciated.

Construction in progress represents shops and warehouses under construction in Moscow and St. Petersburg.

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

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

Long-term prepayments

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

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its 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.

Leasing

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

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

Leased assets are depreciated over their estimated useful economic lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset. Rents paid under operating leases are charged to the 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 completion and 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 annually to reflect the historical trend of the actual physical inventory count results.

Vendor allowances

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

Allowances received from vendors are presumed to be a reduction in prices paid for the product and are recognized in cost of sales as the related inventory is sold and contract conditions are met, unless specific criteria are met to recognize the allowance 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 allowance for uncollectible amounts.

Cash and cash equivalents

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

Bank loans and other non-bank borrowings

All loans and borrowings are initially recorded at the net amounts received. After initial recognition all loans and borrowings are subsequently measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

Borrowing costs

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

Trade and other payables

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

Value added tax on purchases and sales

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

Income taxes

Income taxes for the Russian entities have been computed in accordance with the laws of the Russian Federation. They are based on the results for the year as adjusted for items that are non-assessable or non-tax deductible.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to and can settle its tax assets and liabilities on a net basis.

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

Retirement benefit costs

The operating entities of the Group contribute to the state pension, medical and social insurance and employment funds on behalf of all its current employees. Any related expenses are recognized in the income statement as incurred.

Contributions to the Russian Federation pension fund are recorded on an accrual basis. Employers are required to contribute to the fund an amount of up to 26% of salary costs based on a degressive scale. The Russian group companies pay Unified Social Tax on the payroll costs. This is a defined contribution scheme.

There is no unfunded element at the balance sheet date.

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. Retained earnings may differ significantly from the amounts calculated on the basis of IFRS.

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 franchise 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 agreements or by using their bonus or 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 and sales tax.

Earnings per share

Earnings per share have been determined using the weighted average number of Pyaterochka Holding N.V. shares outstanding during the years ended 31 December 2004 and 2003 after giving consideration to the effect of capital reorganization detailed in Note 9.

Principles for the compilation of the statement of cash flows

The statement of cash flows has been prepared according to the indirect method.

Transactions, not resulting in cash flows, such as financial leasing, are not recorded in the statement of cash flows. Payments of the financial lease instalments are recorded as a cash flow used in financing activities for the redemption component and as a cash flow used in operational activities for the interest component.

Notes to specific items of the consolidated balance sheet

3. Property, plant and equipment

The movement in property, plant and equipment is as follows:

Cost:	Land and buildings RUR 000	Equipment RUR 000	Other tangible assets RUR 000	Total RUR 000
At December 31, 2003	2.706.766	505.428	755.509	3.967.703
Additions	1.747.000	174.255	456.483	2.377.738
Disposals	(20.606)	(25.783)	(58.825)	(105.214)
At December 31, 2004	4.433.160	653.900	1.153.167	6.240.227
Accumulated depreciation:				
At December 31, 2003	(86.046)	(54.949)	(225.994)	(366.989)
Charge for the year	(102.298)	(54.318)	(258.993)	(415.609)
Disposals	188	6.320	37.354	43.862
At December 31, 2004	(188.156)	(102.947)	(447.633)	(738.736)
Net book value:				
At December 31, 2003	2.620.720	450.479	529.515	3.600.714
At December 31, 2004	4.245.004	550.953	705.534	5.501.491

The movement in property, plant and equipment is as follows:

	Land and buildings USD 000	Equipment USD 000	Other tangible assets USD 000	Total USD 000
Cost:				
At December 31, 2003	91.896	17.160	25.650	134.706
Additions	60.628	6.047	15.841	82.516
Disposals	(526)	(875)	(1.887)	(3.288)
Currency translation adjustment	7.763	1.233	1.958	10.954
At December 31, 2004	159.761	23.565	41.562	224.888
Accumulated depreciation:				
At December 31, 2003	(2.921)	(1.866)	(7.672)	(12.459)
Charge for the year	(3.550)	(1.885)	(8.988)	(14.423)
Disposals	6	215	1.268	1.489
Currency translation adjustment	(316)	(174)	(744)	(1.234)
At December 31, 2004	(6.781)	(3.710)	(16.136)	(26.627)
Net book value:				
At December 31, 2003	88.975	15.294	17.978	122.247
At December 31, 2004	152.980	19.855	25.426	198.261

For the year ended 31 December 2004, interest capitalized included in additions amounted to RUR 11.849 thousand (USD 427 thousand).

At 31 December 2004 and 2003, property, plant and equipment with a net book value of RUR 1.063.774 thousand (USD 38,336 thousand) and RUR 595.305 thousand (USD 20,211 thousand), respectively, were pledged to secure certain loans granted to the Group.

At 31 December 2004 and 2003, refrigerating equipment and vehicles include assets held under a number of finance lease agreements. At the end of the lease term the Group takes automatic ownership of the assets. The carrying amount of the leased refrigerating equipment at 31 December 2004 and 2003 was RUR 165.244 thousand (USD 5,955 thousand) and RUR 66.926 thousand (USD 2,272 thousand), respectively.

The carrying amount of the leased vehicles at 31 December 2004 and 2003 was RUR 25.834 (USD 931 thousand) and RUR nil thousand (USD nil thousand), respectively.

4. Construction in progress

The movement in construction in progress is as follows:

	2004 RUR 000	2003 RUR 000
Balance as at January 1	908.353	795.407
Addition during the year	1.557.015	2.121.811
Transfer to property, plant and equipment	(1.392.072)	(2.008.865)
Balance as at December 31	1.073.296	908.353

	2004 USD 000	2003 USD 000
Balance as at January 1	30.839	25.029
Addition during the year	56.111	69.159
Transfer to property, plant and equipment	(50.167)	(65.457)
Currency translation adjustment	1.896	2.108
Balance as at December 31	38.679	30.839

It is compulsory in Russia to capitalize all fixed assets categories through the construction in progress. This has been reflected in the movement of the construction in progress.

5. Deferred tax asset

Reference is made to the note under deferred tax liability. The deferred tax asset is in general of a long-term nature.

6. Inventories

Inventories can be broken down as follows:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Merchandise	1.115.759	1.074.379	40.209	36.476
Provision for obsolete inventory	(11.960)	(1.097)	(431)	(37)
Net inventories	1.103.799	1.073.282	39.778	36.439

At 31 December 2004 and 2003 merchandise with approximate book value of RUR 1.073.153 thousand (USD 38,674 thousand) and RUR 147.938 thousand (USD 5,023 thousand), respectively, were pledged to secure loans granted to the Group.

7. Other receivables and prepaid expenses

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Advances paid	199.742	176.177	7.198	5.981
VAT receivable	759.343	486.566	27.365	16.519
Other taxes receivable	48.421	11.899	1.745	404
Promissory notes receivable	62.990	-	2.270	-
Other receivables and prepaid expenses	2.028.356	298.335	73.098	10.129
Allowance for doubtful other receivables	(37.897)	(18.461)	(1.366)	(627)
	3.060.955	954.516	110.310	32.406

8. Cash and cash equivalents

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

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Petty cash	20.809	14.036	750	477
Cash in banks, in RUR	93.853	279.698	3.382	9.497
Cash in banks, in USD	16.707	11.813	602	400
Cash in transit	150.604	116.710	5.428	3.962
Total	281.973	422.257	10.162	14.336

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 to the bank account as of the date of the consolidated financial statements.

9. Group equity

In accordance with the provisions of Dutch law, the holding company Pyaterochka Hoding N.V. revalued its investments in Russian subsidiaries at fair value at the moment of acquisition for statutory purposes. Effective December 29, 2003, the authorized capital denominated in euros was increased to EUR 190.000.000 and was split into 190.000.000 shares with a par value of EUR 1 each. The other reserves resulting from the revaluation of investments were used to issue 37.915.437 shares with a par value of EUR 1 each. For purposes of consolidated financial statements prepared in accordance with IFRS, the increase of issued and paid-in share capital was recorded as a capitalization of retained earnings as no consideration was received for the issued shares.

As of December 31, 2004 and 2003, issued and fully paid share capital consists of:

	Nominal par value	Number of shares issued and fully paid	2004 RUR 000	2004 USD 000
Pyaterochka Hoding N.V. (Balt-Adler Optimart B.V. in 2003)	EUR 1	38.306.785	1.396.198	50.316

	Nominal par value	Number of shares issued and fully paid	2003 RUR 000	2003 USD 000
Balt-Adler Optimart B.V.	EUR 1	38.306.785	1.396.198	47.402

During the years ended 31 December 2004 and 2003 the Group declared and paid dividends of RUR 66.532 thousand (USD 2.317 thousand) (USD 0.06 per share) and RUR 68.000 thousand (USD 2.309 thousand) (USD 0.06 per share), respectively.

As the financial fixed assets in the company-only financial statements are valued at cost, differences exist between group equity in the consolidated financial statements and the shareholders' equity in the company-only financial statements, as well as between the consolidated net result for the year and the company-only net result.

On 10 May 2004, the Board of Directors approved the stock option plan to key managers employed by the Group. As of 31 December 2004, no grants pursuant to the stock option plan were made to the Group's employees.

The non distributable retained earnings amounts to RUR 1.020.398 thousand (USD 31.521 thousand).

We refer to note 23 for further disclosure of equity of the Group standalone financial statements.

10. Income taxes

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

The taxable profits of Pyaterochka Holding N.V. (formerly Bart-Adler Optimart B.V.), a legal entity incorporated in Netherlands, are taxed at a rate of 34.5% for the years ended 31 December 2004 and 2003.

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

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Current tax	479.906	240.508	16.676	7.839
Deferred tax	15.255	22.955	511	748
Total income tax expense	495.161	263.463	17.187	8.587

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:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Net liability at January 1	246.955	224.000	8.384	7.049
Charged to income for the year	15.255	22.955	511	748
Currency adjustment	-	-	554	587
Net liability at December 31	262.210	246.955	9.449	8.384

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

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Deferred tax assets:				
Accrued expenses	22.345	3.527	805	120
Provision for doubtful receivables	9.102	4.431	328	150
Inventory obsolescence provision	11.968	263	431	9
Difference in depreciable value of property, plant and equipment	35.685	27.438	1.286	932
Other adjustments	531	7.140	20	242
Total	79.631	42.799	2.870	1.453
Deferred tax liabilities:				
Difference in depreciable value of property, plant and equipment	341.841	289.754	12.319	9.837
Total	341.841	289.754	12.319	9.837
Net deferred tax liability	262.210	246.955	9.449	8.384

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. A reconciliation of theoretical income tax at 24% to the actual expense recorded in the Group's income statement is as follows:

	2004 RUR 000	2003 RUR 00C	2004 USD 00C	2003 USD 00C
Profit before income tax	1.094.777	973.972	38.102	31.746
Theoretical income tax at statutory rate of 24%	262.746	233.753	9.144	7.619
Adjustments due to:				
Effect of income, taxed at rates different from standard	(105.098)	(6.018)	(3.658)	(196)
Tax effect of expenses that are not deductible in determining taxable profit	337.513	35.728	11.701	1.164
Income tax expense	495.161	263.463	17.187	8.587

The Group does not record deferred tax liabilities in relation to undistributed earnings of its subsidiaries as it intends to permanently reinvest these earnings. Distribution of dividends by the Russian entities would be subject to a 6% Russian withholding tax, subject to the application of and qualifications under the Double Taxation Convention between the Russian Federation and the Netherlands, which is not recoverable or creditable against Dutch corporate income tax of Pyaterochka Holding N.V.

11. Long-term loans

Long-term loans as of December 31, 2004 and 2003 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2004)	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Raiffeisenbank	USD	LIBOR+5.25% (7.65%)	543.181	296.918	19.575	10.080
Sberbank	RUR	11.6%	229.981		8.288	-
Sberbank	RUR	16.0%-18.0%	239.194	44.682	8.620	1.517
Sberbank	RUR	15.5%-16.5%	39.174	24.683	1.411	838
Sberbank	RUR	11.5%-12.5%	109.913	-	3.961	-
Carmel Alliance Limited	USD	5.5%	-	60.559	-	2.056
Other			3.691	2.223	134	76
			1.165.134	429.065	41.989	14.567
Less current portion of long-term loans			(93.773)	(83.592)	(3.380)	(2.838)
Total long-term loans			1.071.361	345.473	38.609	11.729

Raiffeisenbank – In September 2003, the Group entered into two credit agreements with Raiffeisenbank for an aggregate RUR 296.918 thousand (USD 10.080 thousand). In January 2004, the Group entered into two additional credit agreements with Raiffeisenbank for an aggregate RUR 275.961 thousand (USD 9.945 thousand). All loans bear interest of LIBOR+5.25% and are redeemable in quarterly installments before August 2008. As of 31 December 2004 and 2003, RUR 543.181 thousand (USD 19.575 thousand) and RUR 296.918 thousand (USD 10.080 thousand), respectively, were outstanding under these agreements. Property, plant and equipment with a book value of RUR 538.325 thousand (USD 19.400 thousand) and RUR 350.509 thousand (USD 11.900 thousand) were pledged to collaterize the outstanding balances as of 31 December 2004 and 2003, respectively.

Sberbank – During 2002-2004, the Group entered into several credit facilities with Sberbank to finance its capital expenditures. In September 2002, the Group entered into a credit facility of RUR 70.500 thousand (equivalent of USD 2.500 thousand) maturing in September 2007. In November 2003, the Group entered into a credit facility of RUR 130.000 thousand (equivalent of USD 4.700 thousand) maturing in November 2008. In July 2004, the Group entered into a credit facility of RUR 124.000 thousand (equivalent of USD 4.468 thousand) maturing in July 2009. The credit facilities bear interest from 16.0% to 18.0% per annum. As of 31 December 2004 and 2003, RUR 239.194 thousand (USD 8.620 thousand) and RUR 44.682 thousand (USD 1.517 thousand) were outstanding under these agreements.

In July 2004, the Group entered into loan agreement with Sberbank of RUR 230.000 thousand (equivalent of USD 8.289 thousand) to finance its working capital. The loan bears interest of 11.6% per annum and matures in January 2006.

In July 2004, the Group entered into a credit facility with Sberbank of up to RUR 170.000 thousand (equivalent of USD 6.126 thousand) to finance its working capital. Interest rate on this credit facility is 11.5%-12.5%. As of 31 December 2004 RUR 109.913 thousand (USD 3.961 thousand) was outstanding under this credit facility. The loan matures in January 2006.

In February 2004, the Group entered into a credit facility with Sberbank of up to RUR 150.000 thousand (equivalent of USD 5.406 thousand) to finance its working capital. The credit facility bears interest of 15.5%-16.5% per annum. As of 31 December 2004, RUR 19.587 thousand (USD 706 thousand) was outstanding under this credit facility.

In August 2003, the Group entered into a credit facility with Sberbank of up to RUR 90.000 thousand (equivalent of USD 3.200 thousand) to finance its working capital. Interest rate on this credit facility was 15.5%-16.5%. As of 31 December 2004 and 2003, RUR 19.587 thousand (USD 706 thousand) and RUR 24.683 thousand (USD 838 thousand), respectively, were outstanding under this credit facility. The loan was repaid in February 2005.

As of 31 December 2004 and 2003, loans from Sberbank were collaterized by pledges of equipment with a book value of RUR 274.712 thousand (USD 9.900 thousand) and RUR 194.400 thousand (USD 6.600 thousand), respectively. As of 31 December 2004 the loans were also secured by pledge of merchandise with a book value of RUR 421.780 thousand (USD 15.199 thousand).

Carmel Alliance Limited – In September 2002, the Group entered into loan agreement with Carmel Alliance Limited of RUR 60.559 thousand (USD 2.056 thousand). The interest rate on the loan was 5.5% per annum. The loan was fully repaid in 2004.

12. Long-term obligations under financial lease

During the years ended 31 December 2003 and 2004, the Group entered several lease agreements for refrigerating equipment and vehicles. 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 2004 varies from 9.0% to 31.0% per annum.

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

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 0000
Amounts payable under financial lease				
Total minimum lease payments	188.900	75.309	6.807	2.557
Less: future finance charges	(61.494)	(30.637)	(2.216)	(1.041)
Present value of lease obligations	127.406	44.672	4.591	1.516
Amount due for settlement within 12 months	29.005	3.075	1.045	104
Amount due for settlement in the second to fifth year inclusive	98.401	41.597	3.546	1.412

Rent expense recorded within interest expense was RUR 25.929 thousand (USD 900 thousand) and RUR 5.762 thousand (USD 200 thousand) for the years ended 31 December 2004 and 2003.

13. Short-term loans

As at 31 December 2004 and 2003 short-term loans were as follows:

	Currency	Annual interest rate (Actual at December 31, 2004)	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Sberbank	RUR	5.0%-11.2%	388.361	27.098	13.995	920
Promstroibank	RUR	11.7%	30.000	-	1.081	-
LLC Kaiser	RUR	0.1%	236.840	-	8.535	-
Sberbank overdraft	RUR	9.0%	77.669	146.867	2.800	4.986
Raiffeisenbank overdraft	RUR	Bank base rate+3.5%	75.709	34.847	2.728	1.183
Current portion of long-term loans			93.773	83.592	3.380	2.838
Total short-term loans			902.352	292.404	32.519	9.927

Sberbank – In 2003 and 2004 the Group entered into a number of credit line agreements. The total amount of such credit lines as of 31 December 2004 is limited to RUR 590.000 thousand (equivalent of USD 21.262 thousand). The credit lines outstanding as of 31 December 2004 bear interest from 5.0% to 11.2% per annum and mature in 2005. The loans are collaterized by a pledge of merchandise with a book value of RUR 652.094 thousand (USD 23.500 thousand) and RUR 147.273 thousand (USD 5.000 thousand) as of 31 December 2004 and 2003, respectively. As of 31 December 2004, property, plant and equipment with a book value of RUR 249.738 thousand (USD 9.000 thousand) was also pledged under these agreements.

Promstroibank – In December 2004, the Group entered into a loan agreement with Promstroibank RUR 30.000 thousand (equivalent of USD 1.081 thousand). 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 loan agreement with LLC Kaiser, a party under common control, for RUR 236.840 thousand (equivalent of USD 8.535 thousand). The loan bears interest at 0.1% per annum and is due in the first quarter of 2005.

Sberbank Overdraft – At 31 December 2004 and 2003 the Group had balances of RUR 77.669 thousand (USD 2.800 thousand) and RUR 146.867 thousand (USD 4.986 thousand), respectively. The short-term overdraft facility is limited to RUR 150.000 thousand (equivalent of USD 5.406 thousand), bears interest of 9.0% per annum and matured in January 2005. The overdraft facility is unsecured.

Raiffeisenbank Overdraft – At 31 December 2004 and 2003 the Group had balances of RUR 75.709 thousand (USD 2.728 thousand) and RUR 34.847 thousand (USD 1.183 thousand), respectively. The short-term overdraft facility is limited to RUR 100.000 thousand (equivalent of USD 3.604 thousand), matures in May 2005 and bears interest at the internal Raiffeisenbank rate set for loans denominated in Rubles plus 3.5%. The overdraft facility is unsecured.

14. Other payables and accrued expenses

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

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Taxes payable	413.123	416.178	14.888	14.130
Current portion of finance lease obligations	28.997	3.075	1.045	104
Other payables and accruals	1.643.502	477.610	59.228	16.215
Total	2.085.622	896.863	75.161	30.449

Notes to specific items of the consolidated income statement

15. Selling, general and administrative expenses

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

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Payroll and related taxes	1.885.948	1.305.965	65.450	42.553
Royalties	1.683.844	328.830	58.447	10.718
Rent	621.795	436.806	21.591	14.233
Insurance	57.478	122.216	1.995	3.983
Depreciation expense	415.609	249.889	14.423	8.142
Amortisation of long term prepayments	3.256	5.166	113	169
Taxes, other than income tax	37.094	23.491	1.287	765
Repair and maintenance	177.549	162.072	6.162	5.281
Package and raw materials	100.048	90.897	3.472	2.962
Security	122.211	70.541	4.241	2.299
Transportation	83.135	46.265	2.885	1.507
Utilities	96.384	44.735	3.345	1.458
Advertising and promotional expenses	258.654	214.485	8.976	6.991
Other expenses	342.744	204.139	11.908	6.680
Total	5.885.749	3.305.497	204.295	107.741

Royalties are amounts paid to a related party with respect to the use of the trademark "Pyaterochka" which is held by a related party.

Included in the rent is a revenue of RUR 110.238 thousand (USD 3.828 thousand) of sublease, gross rent expense amounts to RUR 732.033 thousand (USD 25.419 thousand).

The costs related to personnel, included in the selling, general and administrative expenses, can be broken down as follows:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Salaries and wages	1.658.982	1.243.133	57.570	40.506
Social charges	38.604	8.345	1.342	272
Pension costs	188.362	54.487	6.538	1.775
Total personnel costs	1.885.948	1.305.965	65.450	42.553

In 2004, the Group employed on average 11.559 employees (2003: 11.027). The employees, with the exception of management, are employed through two intermediary agents and not directly hired by the Group.

The directors received a remuneration of RUR 32.199 thousand (USD 1.160 thousand) in 2004 (RUR 282.760 thousand (USD 9.599 thousand) in 2003). These amounts were distributed between directors as follows:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Rogachev	9.736	71.060	351	2.412
Girda	6.166	69.547	222	2.361
Vidyaev	9.616	72.669	347	2.467
Franus	6.681	69.484	240	2.359
Total	32.199	282.760	1.160	9.599

16. Interest expenses

Finance costs for the years ended December 31, 2004 and 2003 consisted of the following:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Interest income	3.630	2.555	126	83
Interest expense	(120.406)	(38.469)	(4.179)	(1.253)
Total	(116.776)	(35.914)	(4.053)	(1.170)

Other notes

17. Operating environment and contingent liabilities

Operating and regulatory Environment

Although in recent years there has been a general improvement in the 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 (according to the government's statistical data consumer price inflation for the years ended 31 December 2004 and 2003 was 11.7% and 12.0%, respectively) and continuing efforts by the government to implement structural reforms. As a result laws and regulations affecting businesses continue to change rapidly.

Taxation

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. 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 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 preceding 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 current tax legislation, the above facts may create additional financial risks for the Group.

Contingent liabilities

The Group enters into various non-cancelable operating lease agreements for the rent of stores, land and premises. Terms of operating leases vary from one to fifty years. Future minimum lease payments under non-cancelable operating lease commitments as of December 31, 2004 are as follows:

	RUR 000	USD 000
Minimum lease payments due within 12 months	901.777	32.498
Minimum lease payments due in the second to fifth year inclusive	1.575.987	56.795
Minimum lease payments due after five years	844.726	30.442
Total	3.322.490	119.735

18. Transactions with related parties

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

	2004 RUR 000	2004 USD 000	2003 RUR 000	2003 USD 000
Receivable from LLC Kaiser for sold construction assets	1.549.571	55.843	-	-
Short-term note receivable from LLC Kaiser	194.241	7.000	-	-
Short-term loan receivable from LLC Union-Stroi	72.000	2.595	-	-
Advances for construction paid to LLC Macromir	10.600	381	17.100	618
Accounts receivable from LLC Media 5	444	16	-	-
			-	
Short-term loan payable to LLC Kaiser	236.840	(8.535)	-	-

In 2004, the Group announced its decision to dispose of its interests and investments in partially constructed hypermarkets in St. Petersburg. The shareholders of the Group established a separate group of entities to operate the hypermarkets under the brand name "Karusel". The "Karusel" group consists of Formata Holding B.V., Hirsova Trading Limited, LLC Rusel, LLC Kaiser and LLC Union-Stroi. All these entities are considered related by means of common control.

During 2002-2004 the Group also entered into transactions with companies LLC LEK Estate Concern, LLC LEK Estate Firm and LLC Macromir for construction of estate properties. In 2004, the Group leased advertising space to LLC Media 5 and Media 5M. The directors of the Group hold interest in these companies and have the ability to exercise significant influence over their operations.

LLC Kaiser – In 2004, the Group transferred all of its interests and investments in partially constructed hypermarkets in St. Petersburg (land, buildings and construction in progress) in amount of RUR 650.000 thousand (equivalent of USD 23.425 thousand) to LLC Kaiser, a real estate operator for the "Karusel" project in St. Petersburg, and provided financing for RUR 900.000 thousand (equivalent of approximately USD 32.343 thousand) to LLC Kaiser for developing of "Karusel" project. The assets were transferred at book value, no income or loss on the sale was recognized by the Group and no cash consideration was received. As of 31 December 2004, the Group recorded the total amount of RUR 1.549.571 thousand (equivalent of USD 55.843 thousand) as receivable from related parties for the transferred assets. In March 2005 this spin off transaction was completed through the effective release of the related party creditor from its obligation to the Group (see additional information "Subsequent events").

The loan payable to LLC Kaiser is interest-free and is to be repaid in 2005.

Due to the short-term nature of the interest free loans to and borrowings from the related parties effect of remeasuring them to fair value would not be material.

LLC Union-Stroi – In 2004, the Group provided financing to the "Karusel" project by issuing loans to LLC Union-Stroi, a real estate operator for the "Karusel" group in Moscow. As of 31 December 2004, short-term interest-free unsecured note receivable from LLC Union-Stroi of RUR 72.000 thousand (USD 2.595 thousand) is recorded within receivables from related parties.

LLC LEK Estate Firm – In 2003, the Group purchased a constructed building from LLC LEK Estate Firm for a total consideration of RUR 13.900 thousand (equivalent of USD 501 thousand).

LLC Macromir – During 2003-2004 LLC Macromir performed capital construction of hypermarkets for the Group. The amount of capital construction services purchased by the Group from Macromir was RUR 79.500 thousand and RUR 21.200 thousand (equivalent of USD 2.865 thousand and USD 720 thousand) in 2003 and 2004, respectively. As of 31 December 2004 and 2003 the balances of advances paid by the Group to LLC Macromir included in construction in progress amounted to RUR 10.600 thousand and RUR 17.100 thousand (equivalent of USD 381 thousand and USD 618 thousand), respectively.

LLC Media 5 – In 2004, the Group leased advertising space in its St. Petersburg stores to LLC Media 5, a company related by means of common control, for RUR 3.100 thousand (equivalent of USD 112 thousand). The Group also provided unsecured loans to LLC Media 5 of RUR 4.300 thousand (equivalent of USD 155 thousand) bearing interest of 0.1% per annum. As of 31 December 2004 accounts receivable from LLC Media 5 are recorded within receivables from related parties.

LLC Media 5M – In 2004, the Group leased advertising space in its Moscow stores to LLC Media 5M, a company related by means of common control, for the total amount of RUR 4.500 thousand (equivalent of USD 162 thousand).

Speak Global Ltd. – the Group has a loan payable amounting to RUR 63.825 thousand (USD 2.300 thousand) which matures on July 31, 2006. The Group has a royalty agreement with Speak Global Ltd. with respect to the use of the trademark "Pyaterochka". We refer to the disclosure on the selling, general and administrative expenses.

As of 31 December 2004, the Group is liable for withholding taxes in amount of RUR 98.230 thousand (USD 3.540 thousand) under the Dutch legislation. The shareholders of the Group have agreed to reimburse the Group with the amount of taxes payable. The receivable from shareholders is recorded within receivables from related parties.

19. Risk management policies

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

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 customer and supplier base. 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 significant portion of its borrowings is short-term in nature, and the Group's refinancing activities are subject to risks associated with changes in the applicable interest rate. The Group does not hedge against these risks.

Foreign currency risk

The Group incurs foreign currency risk on borrowings that are denominated in a currency other than Russian roubles. The Group does not hedge against its foreign currency risk exposure.

Fair values

The fair values of assets and liabilities are not materially different from the financial statement carrying values.

20. Capital commitments

In 2004 and 2003, the Group signed several agreements for the construction of hypermarkets in St. Petersburg.

The amounts of commitments given as of December 31, 2004 and 2003 are as follows:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Commitments for the acquisition of property, plant and equipment	301.073	652.504	10.850	22.153

Balance sheet as of December 31, 2004

(before appropriation of net result)	notes	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Assets					
Fixed assets					
Financial fixed assets	22	1.649.821	1.649.821	59.456	56.012
Current assets					
Prepayments		166	161	6	5
Cash and banks		16.707	12.506	602	425
		16.873	12.667	608	430
		1.666.694	1.662.488	60.064	56.442

	notes	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Shareholders' equity and liabilities					
Shareholders' equity	23				
Share capital issued		1.449.950	1.410.609	52.253	47.891
Share premium		104.394	104.394	3.762	3.543
Retained earnings		148.638	(36.461)	5.357	(1.238)
Unappropriated result for the year		75.608	251.631	2.625	8.202
Currency translation reserve		(179.356)	(142.687)	(6.363)	(4.503)
	23	1.599.234	1.587.486	57.634	53.895
Long-term liabilities					
Amounts due to related parties	24	63.825	67.745	2.300	2.300
Short-term liabilities					
Amounts due to related parties		1.207	609	43	20
Amounts due to shareholders		1.848	1.962	67	67
Accrued expenses		580	4.686	20	160
		3.635	7.257	130	247
		1.666.694	1.662.488	60.064	56.442

See notes to the financial statements.

Pyaterochka Holding N.V.
Amsterdam

Income statement for the year 2004

	notes	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Financial income and expense:					
Dividend		83.741	257.996	2.907	8.409
Other financial income		2.068	1.831	72	60
Currency exchange rate differences		82	10.832	3	353
Interest (expenses)/income		(2.098)	(1.201)	(73)	(39)
		83.793	269.458	2.909	8.783
Other expenses:					
General and administrative expenses		8.185	17.953	284	585
Result before taxation		75.608	251.505	2.625	8.198
Income tax refund		-	126	-	4
Net result for the year		75.608	251.631	2.625	8.202

See notes to the financial statements.

21. Notes to the financial statements

Accounting principles

Reference is made to the notes to the consolidated financial statements unless described below.

Financial fixed assets

Participations in group companies are valued at historical cost. Provisions for impairment are taken into account when necessary.

Corporate income tax

Provisions for taxation have been made in accordance with the standard ruling practice for holding companies in the Netherlands.

Notes to specific items of the balance sheet

22. Financial fixed assets

As of December 31, 2004, the interests in group entities are as follows:

Name	Domicile	Holding percentage (current year)	Consolidated
Direct subsidiaries:			
LLC Agroaspekt	Moscow	100	yes
LLC Agroavto	Moscow	100	yes
LLC Agrotorg	St. Petersburg	100	yes
ZAO Agrostar	St. Petersburg	100	yes
ZAO Zeiser	St. Petersburg	100	yes
ZAO Remtransavto	Moscow	100	yes
Indirect subsidiaries:			
LLC Pyaterochka Plus	St. Petersburg	100	yes
LLC Foodsale	Moscow	100	yes
LLC Shop Pyaterochka 501	Moscow	100	yes
LLC Shop Pyaterochka 502	St. Petersburg	100	yes

A complete list of group companies has been filed at the Chamber of Commerce in Amsterdam, The Netherlands, in accordance with section 2:379 paragraph 5 BW.

Movements in the interests in group companies were as follows:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Opening balance	1.649.821	1.407.012	56.012	44.495
Acquisitions/informal capital contribution	-	234.000	-	7.627
Other movements/foreign exchange differences	-	8.809	3.444	3.890
Closing balance	1.649.821	1.649.821	59.456	56.012

23. Shareholders' equity

	Share capital issued RUR 000	Share premium RUR 000	Retained earnings RUR 000	Unappropriated result for the year RUR 000	Currency translation reserve RUR 000	Total RUR 000
Balance as of January 1, 2003	11.696	1.428.620	(6.401)	(30.060)	-	1.403.855
Redenomination/rounding	6	(6)	-	-	-	-
Conversion of share premium into share capital	1.256.220	(1.256.220)	-	-	-	-
Appropriation of net result	-	-	(30.060)	30.060	-	-
Dividend distribution	-	(68.000)	-	-	-	(68.000)
Result for the year	-	-	-	251.631	-	251.631
Foreign exchange difference	142.687	-	-	-	(142.687)	-
Balance as of December 31, 2003	1.410.609	104.394	(36.461)	251.631	(142.687)	1.587.486
Appropriation of net result	-	-	251.631	(251.631)	-	-
Dividend distribution	-	-	(66.532)	-	-	(66.532)
Result for the year	-	-	-	75.608	-	75.608
Foreign exchange difference	39.341	-	-	-	(36.669)	2.672
Balance as of December 31, 2004	1.449.950	104.394	148.638	75.608	(179.356)	1.599.234

	Share capital issued USD 000	Share premium USD 000	Retained earnings USD 000	Unappropriated result for the year USD 000	Currency translation adjustment USD 000	Total USD 000
Balance as of January 1, 2003	368	44.947	(201)	(946)	225	44.393
Redomination/rounding	-	-	-	-	-	-
Conversion of share premium into share capital	42.650	(42.650)	-	-	-	-
Appropriation of net result	-	-	(946)	946	-	-
Dividend payment	-	(2.309)	-	-	-	(2.309)
Result for the year	-	-	-	8.202	-	8.202
Foreign exchange difference	4.873	3.555	(91)	-	(4.728)	3.609
Balance as of December 31, 2003	47.891	3.543	(1.238)	8.202	(4.503)	53.895
Appropriation of net result	-	-	8.202	(8.202)	-	-
Dividend payment	-	-	(2.317)	-	-	(2.317)
Result for the year	-	-	-	2.625	-	2.625
Foreign exchange difference	4.362	219	710	-	(1.860)	3.431
Balance as of December 31, 2004	52.253	3.762	5.357	2.625	(6.363)	57.634

Total shareholders' equity and the result for the year differ from total group equity and the consolidated result for the year as presented in the consolidated financial statements. The difference can be explained as follows:

	2004 RUR 000	2003 RUR 000	2004 USD 000	2003 USD 000
Equity per financial statements	1.599.234	1.587.486	57.634	53.895
Revaluation reserve re PP&E only in consolidated financial statements	733.249	733.249	26.425	24.894
Issuance of shares deducted from retained earnings in consolidated equity	-	(1.256.226)	-	(42.650)
Historical result of group	414.433	1.213.249	13.760	41.192
Dividends received from subsidiaries	(83.741)	(257.996)	(2.907)	(8.409)
Results from subsidiaries for the year	607.749	716.874	21.196	23.366
Currency exchange differences	1.064	-	1.807	623
Equity per consolidated financial statements	3.271.988	2.736.636	117.915	92.911

Share capital issued

On December 29, 2003, the Group increased its authorized share capital to EUR 190.000.000. At the same time, the nominal value of the existing shares was changed to EUR 454 and all shares were split into 454 shares of EUR 1 each.

Subsequently, the share premium that arose as a consequence of the decision to treat the informal capital contribution (tax purposes) also in the statutory financial statements as share premium, was converted into share capital by way of issuance of 37.915.437 shares of EUR 1 each to existing shareholders.

As at December 31, 2004, the issued and paid-up share capital amounts to EUR 38.306.785 and consists of 38.306.785 shares of EUR 1 each.

24. Long term liabilities

The long-term liabilities comprise loan payable to Speak Global Ltd, a related party. The loan has not been secured, matures at July 2006 and bears interest of 3% per annum.

25. Other notes and signing of the financial statements

Employees

The Group had no employees during the years 2004 and 2003 and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

Managing directors

The Group has one (2003: one) managing director.

In accordance with Article 383 of Book 2 of the Netherlands Civil Code, the remuneration of the only statutory director is not presented.

Signing of the financial statements

Amsterdam, July 29, 2005

Managing Director:	Supervisory Directors:	
O. Vysotsky	A. Girda	D.G. Noble
A. Li	T. Franous	A. Rogachev
V. Beliakov	I. Vidiaev	
W.G. Rieff		

Additional information

Auditors' report

The auditors' report is recorded on the next page.

Statutory profit appropriation

According to the Articles of Incorporation, the net result for the year is at the disposal of the General Meeting of Shareholders.

Subsequent events

Additional Financing

On 31 March 2005, the issuance of Rouble-denominated bearer bonds of Pyaterochka Finance LLC, a 99.99 per cent owned subsidiary of Agrotorg, was registered with the Federal Service for Financial Markets of the Russian Federation. The aggregate nominal value of the bonds amounts to RUR 1.500.000 thousand (approximately USD54.057 thousand). The bonds have a maturity of five years upon commencement of the placement and are placed by open subscription conducted on the Moscow MICEX Stock Exchange. The rate of a coupon payable on the bonds is determined through an auction conducted on the MICEX Stock Exchange. The proceeds of the bond issue are intended 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. The placement has been successfully effected in May 2005. The bond issue is secured by irrevocable buy back offers from Agrotorg and the Group. Pursuant to the offers, Agrotorg and the Group undertook to purchase bonds from their holders at 100 per cent of their nominal value if Pyaterochka Finance LLC delays payment of the coupon or the principal amount by over 10 days or refuses to make such payments.

Contribution of Speak Global Ltd.

On 2 March 2005, the existing shareholders of Speak Global Ltd agreed to contribute their shares in that company to Pyaterochka Holding N.V.

Distribution to Shareholders

In March 2005, the Group disposed of its shareholdings in LLC Foodsale, LLC Pyaterochka Plus and LLC Pyaterochka Shop 502 to a party under common control. The consideration received for the shareholdings was nominal in amount. As a result of this transaction the Group effectively released the party under common control from the obligation to repay the amounts receivable for the transfer of partially constructed hypermarkets in the amount of RUR 1.550.000 thousand (equivalent of USD 55.800 thousand) and assumed obligations to the party under common control for the equivalent of USD 3.900 thousand. The transaction was treated as dividend in kind and decreased the shareholders' equity by equivalent of USD 59.700 thousand. In accordance with the Dutch tax legislation Pyaterochka Holding N.V. is subject to a withholding tax on the transaction expected to be approximately USD 5.000 thousand which will be reimbursed to the Group by Marie-Carla Corporation N.V. and Tayleforth N.V.

The disposed assets did not contribute to the results of operations of the Group during the years ended 31 December 2004 and 2003.

Loans to a Related Party

In May 2005, the Group agreed to provide additional short-term unsecured loans to the "Karusel" group for working capital purposes up to USD 30.000 thousand, bearing interest at 13% per annum and repayable by 31 August 2005.

Purchase of "Kopeika" discounters network

In June 2005 it was announced that the Group reached agreement in principle to acquire 18 Kopeika stores in St. Petersburg. The purchase price has been agreed as USD 60.876 thousands. The Group intends that the Kopeika Stores will be rebranded as part of the Pyaterochka network during a thirty-day conversion period and will stock Pyaterochka's range of products. The Group entered in two loan agreements for a total amount of USD 60.100 thousand for this purchase.

Initial Public Offering

In May 2005 the Group obtained listing of 11.492.036 ordinary shares (30% of the shares) on the London Stock Exchange in the form of 45.968.144 Global Depository Receipts (GDRs). Total amount of the transaction was USD 597.586 thousand.

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Pyaterochka Holding N.V.
Amsterdam

Date	From	Reference
July 29, 2005	Drs. R.M.A. Zuiverloon RA	3100052248/OP9999/lsc

Auditors' report

Introduction

We have audited the financial statements of Pyaterochka Holding N.V. (formerly know as Balt-Adler Optimart B.V.), Amsterdam, for the year 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at December 31, 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

As indicated in the notes to the consolidated financial statements, the financial statements have also been prepared under International Financial Reporting Standards as adopted by the International Accounting Standards Board. In our opinion the financial statemens give a true and fair view of the financial position of the company as at December 31, 2004 and the result for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Accountants B.V.