Пятёрочка
PYATEROCHKA

Pyaterochka as of 31 December 2005:

751 stores under our banners

15 cities across Russia, Ukraine and Kazakhstan

13,984 total employees (end of period)

321,212 sq.m total sales area (core markets)

196,341 sq.m net selling space (core markets)

More than **222 million** cash transactions per year (core markets)

USD2.084 bn gross banner sales in 2005

USD1.359 bn net consolidated sales in 2005

Pyaterochka Today:

Pyaterochka, Russia's leading grocery retailer with 751 stores under our banners, as of 31 December 2005. The Group operated a chain of 347 stores, as of 31 December 2005, of which 159 stores were located in the Moscow area, 167 stores were located in the St. Petersburg area, and 21 stores were located in the Yekaterinburg area.

In addition, franchisees operated 404 stores under the Pyaterochka brand in the Russian regions outside the Moscow and St. Petersburg areas and in the neighbouring countries of Kazakhstan and Ukraine as of 31 December 2005. As of 31 December 2005 Pyaterochka acquired 21 stores in the Yekaterinburg region which had formerly been operated by a franchise partner.

For the year ended 31 December 2005, the Group had net consolidated sales of USD1,359 million and gross banner sales of USD2,084 million. Pyaterochka's customers made over 222 million visits to the Group's stores during 2005. The Group's average store size is approximately 1000 square meters, with an average net selling space of approximately 600 square meters.

Pyaterochka's stores are conveniently located "soft" discount stores, open seven days a week from 9am to 10pm, offering a product range of up to 5,000 products that cover the day-to-day needs of customers, including food and non-food products, fresh produce, and perishables.

Since its inception, Pyaterochka has positioned itself as a value-focused retailer committed to being competitive on price. A series of independent price surveys conducted in 2005 demonstrated that a consumer basket of products most often purchased by customers in Russia has been consistently less expensive at Pyaterochka's stores than at other locations in the company's core markets.

Pyaterochka Holding N.V., incorporated in the Netherlands, is the holding company for the Group's operating companies, which are incorporated in Russia and wholly owned by the Company. The Pyaterochka trademark is owned in Russia through a wholly owned subsidiary of the Group, incorporated in Cyprus. The first Pyaterochka store was opened by the company's founding shareholders in St. Petersburg, Russia, in 1999.

Pyaterochka's appeal is driven from its five driving principles:

1 Conveniently located stores

2 Everyday low prices

3 Guaranteed quality of products

4 Well-chosen product range

5 Excellent customer service

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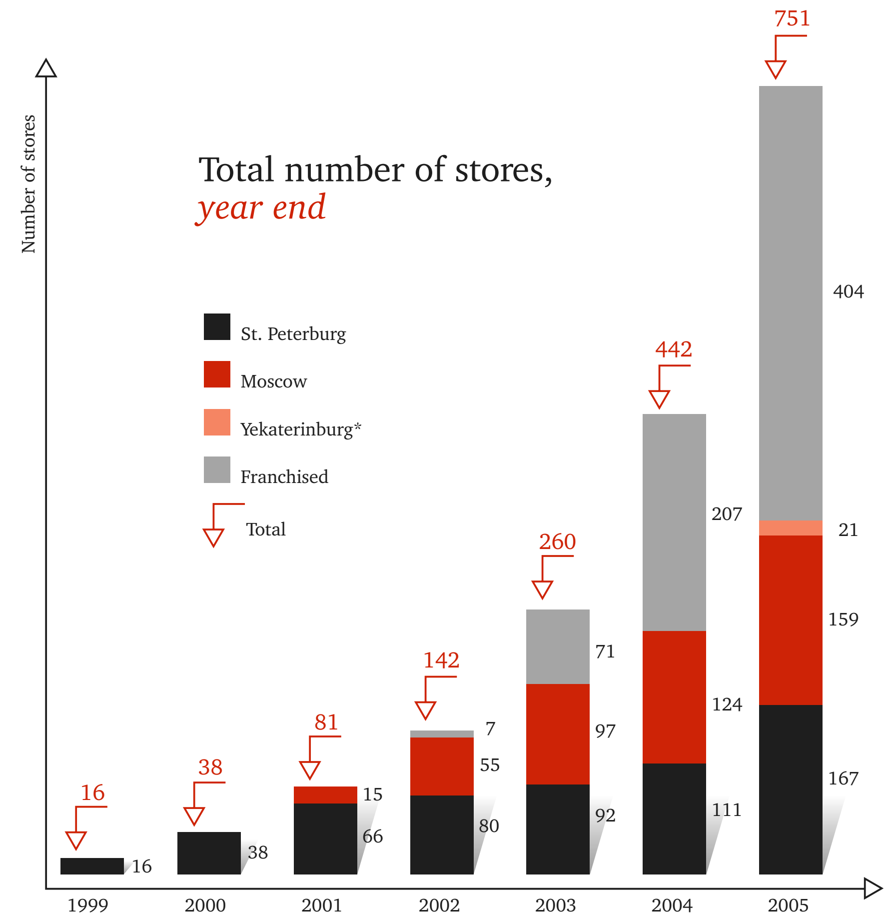

* Pyaterochka acquired 100% of its Yekaterinburg region franchisee in 2005 and 21 stores in this city were company-managed as of 30 December 2005.

Pyaterochka: From entrepreneurial start-up to market leader

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1999 >

- Pyaterochka founded by Andrei Rogachev and Alexander Girda
- 16 stores opened in St. Petersburg

2000 >

- First purpose-built Pyaterochka store opened
- Surpassed USD70 million in turnover

2001 >

- Expansion into Moscow
- EBRD purchases minority stake in Pyaterochka to support future development

2002 >

- Surpassed net sales of USD500 million
- Launch of franchise operations
- Introduction of private labels

2003 >

- Opened largest distribution centre in Northwest Russia
- Awarded "Best Grocery Chain" in Russia

2004 >

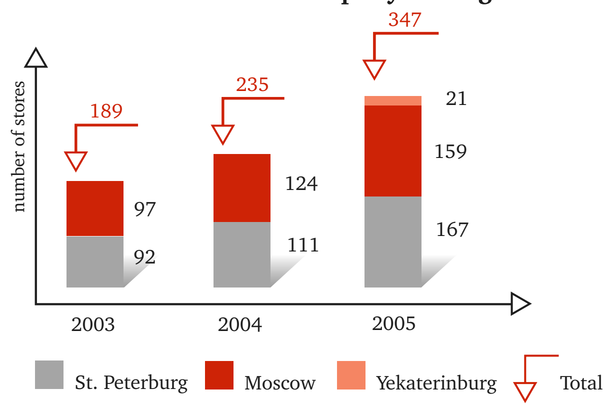
- Opened 100th stores in Moscow and St. Petersburg
- Sales top USD1.0 billion
- Expansion into Ukraine and Kazakhstan
- Founding shareholders buy back stake from EBRD

2005 >

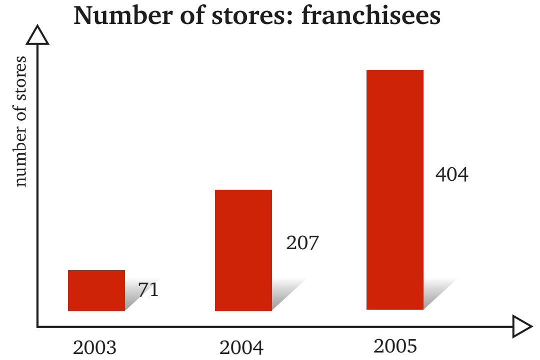
- May 2005 listing on London Stock Exchange
- Acquired 18 Kopeika stores in St. Petersburg and 25 Kopeika stores in Moscow area
- Began regional consolidation programme
- Record new store openings: store count tops 750 branded stores

Operating Highlights

Number of stores: company-managed

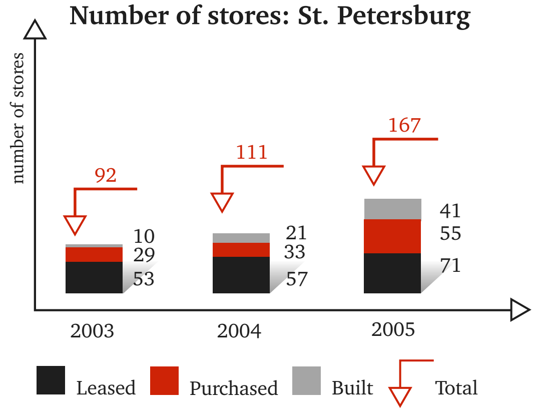


Number of stores: franchisees

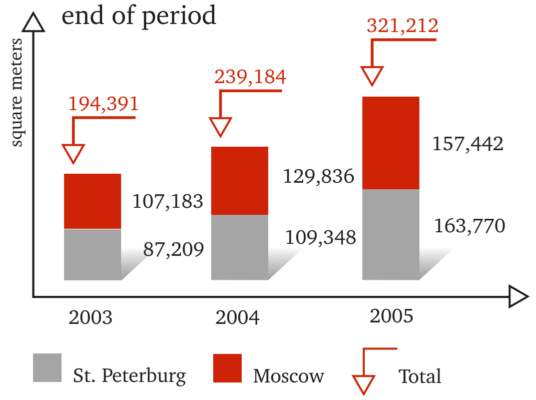


Number of stores: Moscow

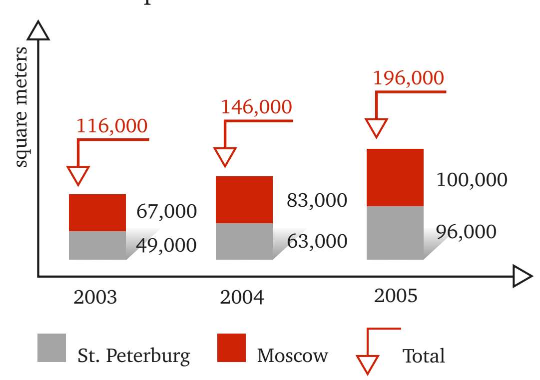
Number of stores: St. Petersburg



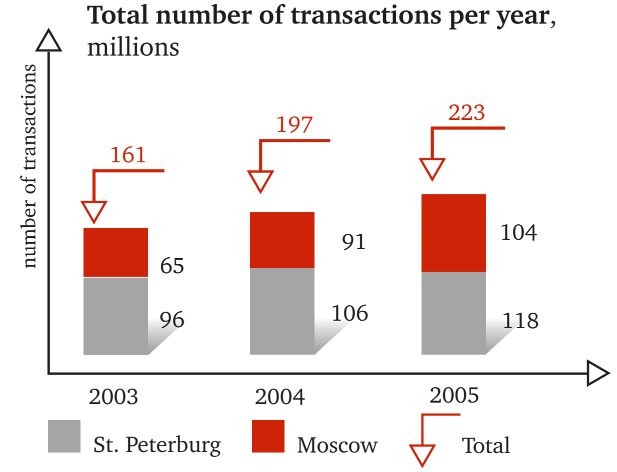
Total space, square meters, end of period



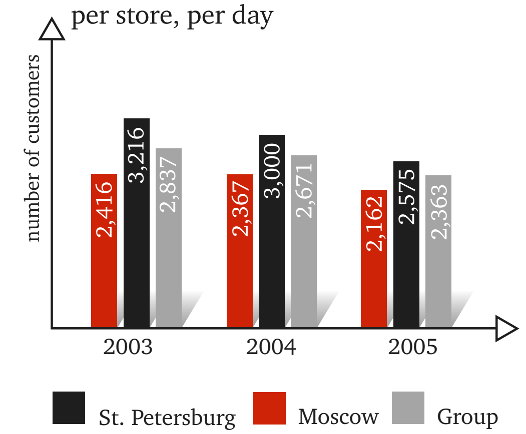
Net selling space, square meters, end of period



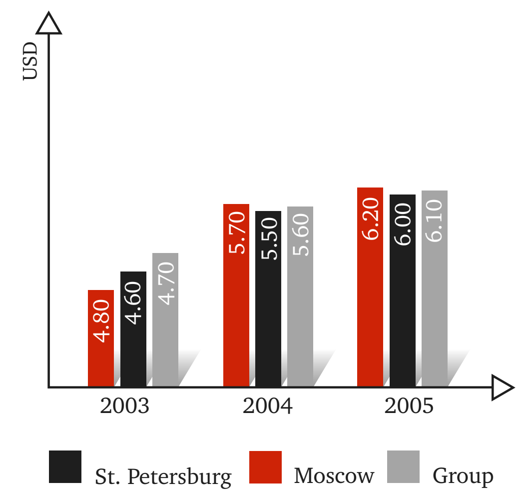
Total number of transactions per year, millions



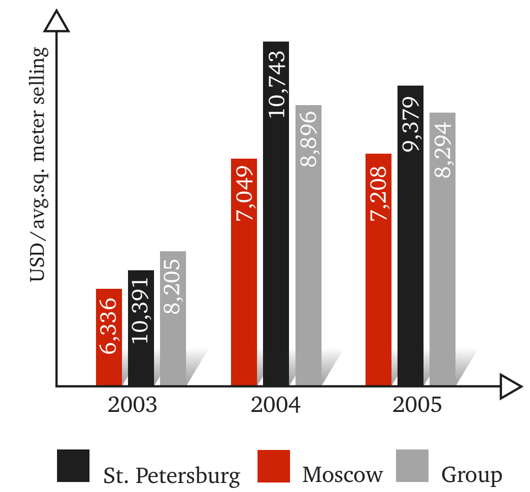
Average number of customers, per store, per day



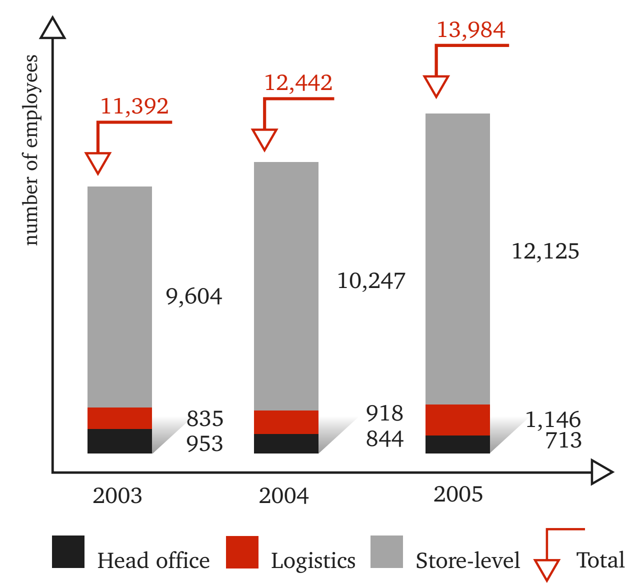
Average check, USD



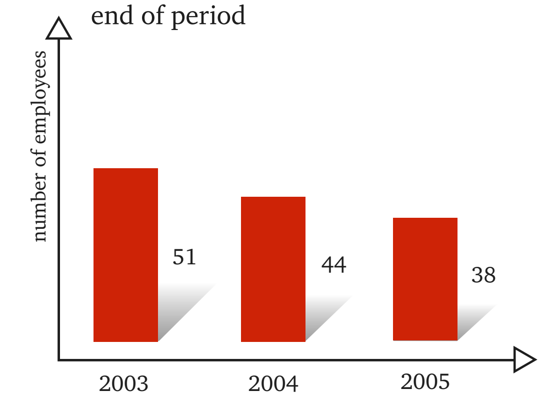
Average sales per square meter



Total number of employees, end of period

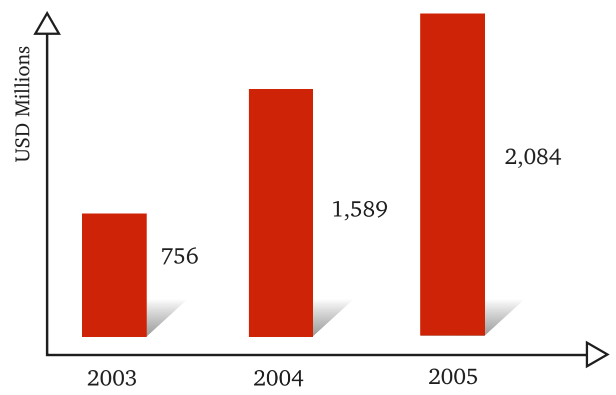


Store-level employees per store, end of period

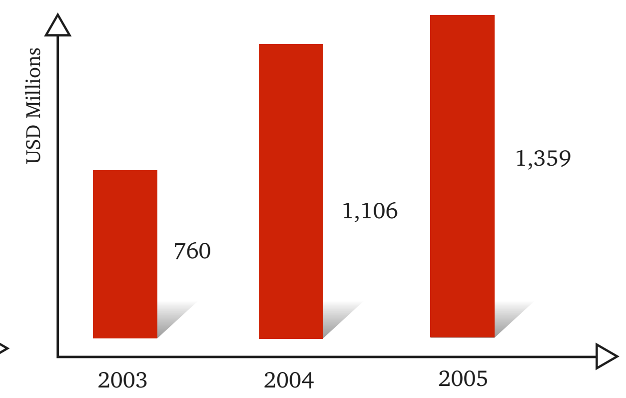


Summary Financials

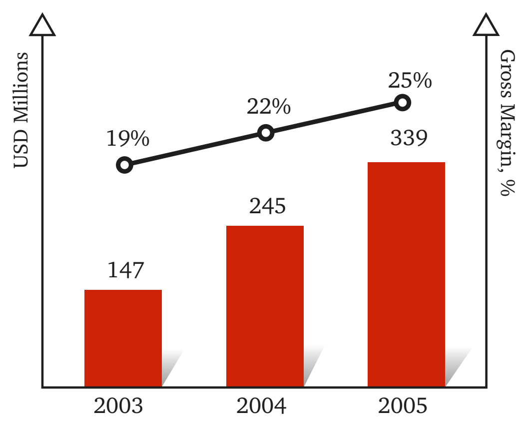
Gross banner sales, USD millions



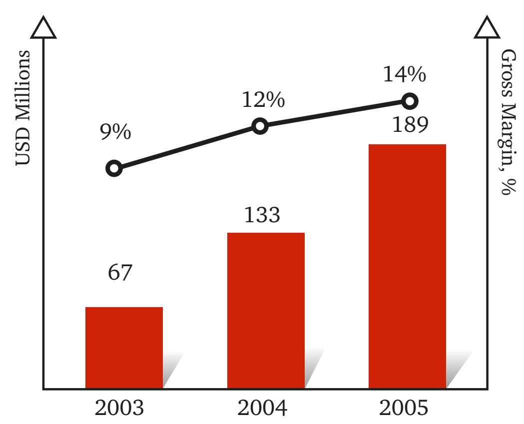
Consolidated net sales, USD millions



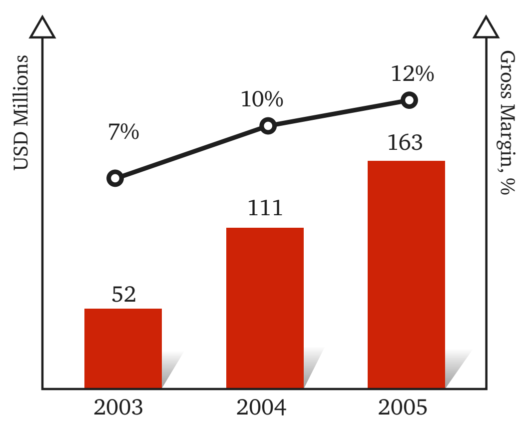
Gross profit, USD millions + **gross margin,** %



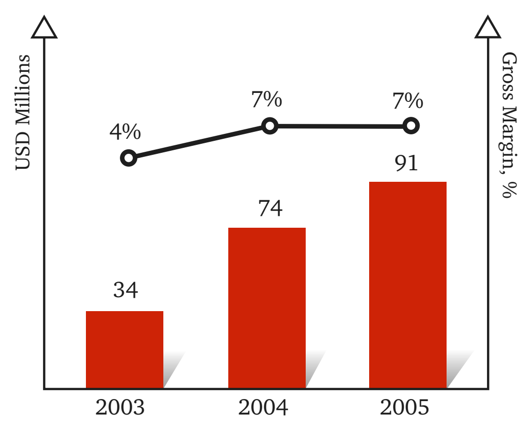
EBITDAR, USD millions + **EBITDAR margin,** %



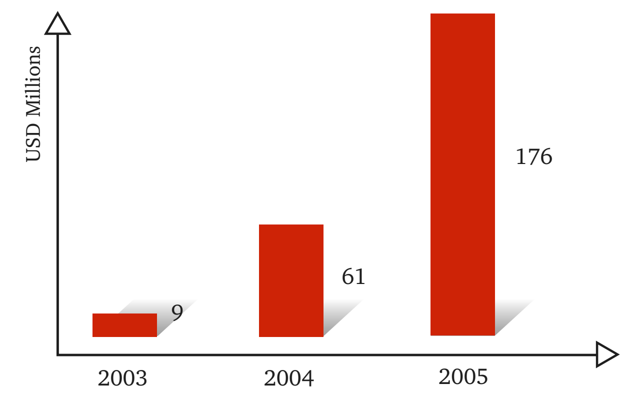
EBITDA, USD millions + **EBITDA margin,** %



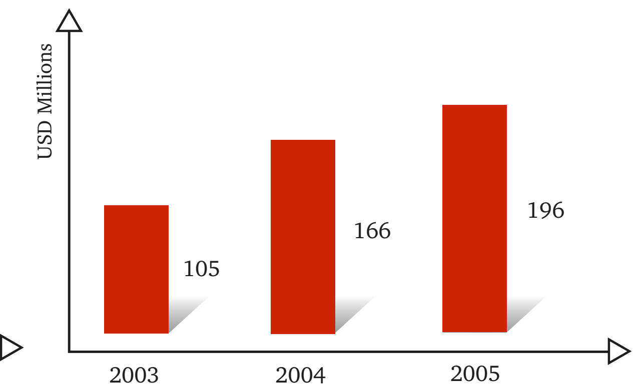
Net profit, USD millions + **profit margin,** %



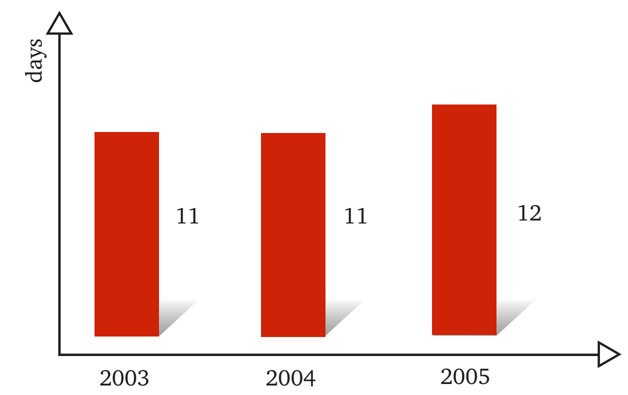
Net Debt*, USD millions, end of period



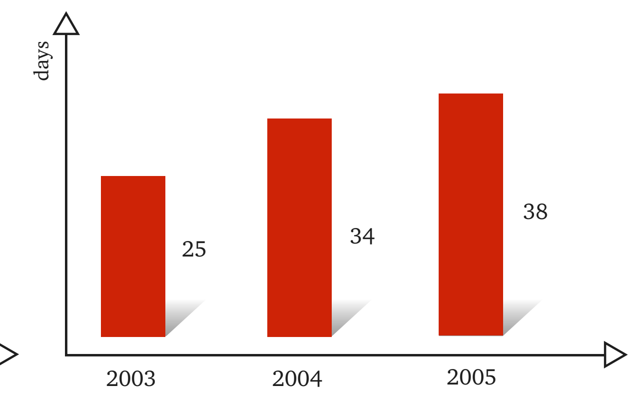
Shareholders equity, USD millions



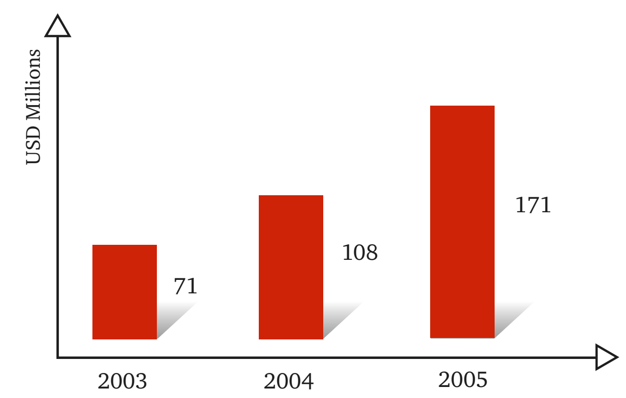
Inventory days**



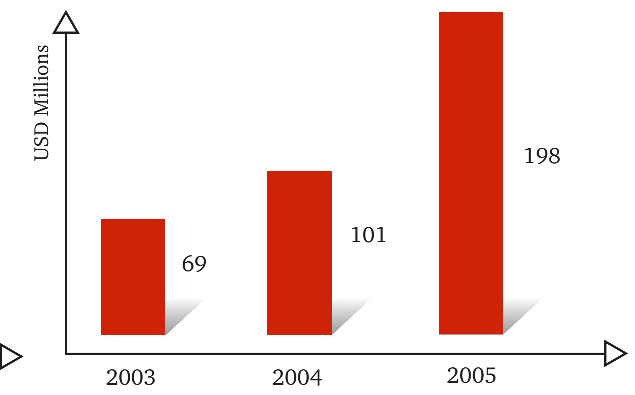
Payable days**



Operating cash flow, USD millions



Organic capital expenditures, USD millions



* Net Debt = debt + leasing – cash
** Calculated as annual average from contracts, taking into account seasonality

2005: Year in Review

Chairman's Statement

2005 has been another eventful year in the history of Pyaterochka. From our beginnings with one store in St. Petersburg in 1999 we have grown rapidly and as of 31 December 2005, 751 stores operated under the Pyaterochka brand across 15 regions of Russia, Kazakhstan, and Ukraine. Our store building programme is continuing to build momentum, with 91 new stores opened in Moscow and St. Petersburg 2005 and even more expected in 2006.

We have once again achieved record performance for the company in reaching new levels of sales and income, with gross banner sales exceeding USD2 billion for the first time. Our EBITDA and net income results have both shown strong increases, up 46% and 23% respectively.

Our store refurbishment initiative is well underway and has played a part in stabilising our position in St. Petersburg. We have also begun to implement our stated aim of selectively acquiring our regional franchisees with the purchase of 21 stores in Yekaterinburg.

2005 marked the transition of Pyaterochka from being a private company, owned by its original shareholders, to a publicly listed company, with a broad base of some of the world's leading institutional investors. On 11 May 2005 the company listed its global depository receipts on the main market of the London Stock Exchange, with an initial market capitalisation of around USD2 billion.

I should not complete this review of 2005 without referring to some of the key developments in the first part of 2006. We have agreed the terms of a merger with Perekriostok, which will further reinforce our position as the clear leader in Russian food retailing. As part of the merger process we welcome Alfa Group as our new majority shareholder; Alfa have made clear their commitment to growing our business and Pyaterochka will benefit from their experience, their resources and the management skills within their Perekriostok operation.

We believe that favourable economic conditions in our markets are set to continue, in part due to high oil prices, leading to consistently increasing disposable income. Russian retail markets remain in a strong long-term growth trend.

We are confident that our expanded group following the merger will maintain its industry leading position.

David Noble
chairman of the supervisory board

Report of the Management Board

CEO Review

2005 was a year of many firsts for Pyaterochka. We listed our shares on the London Stock Exchange and completed the IPO of 32% of the company in May 2005. Pyaterochka is Russia's largest publicly traded retail company, with a market capitalisation of USD2,214 million as of 31 December 2005.

We set an initial goal for store openings in our core markets of Moscow and St. Petersburg of 70 new stores in 2005. This target was aggressive given that the most stores we had opened in any prior year was 50. In 2005, we exceeded this target significantly and opened 91 new stores in Moscow (35) and St. Petersburg (56).

In addition to store openings in our core markets, our franchisees also expanded their networks at a rapid pace. We began the year with 207 franchised stores operating in 10 regions of Russia, Ukraine and Kazakhstan. By 31 December 2005, our franchisees operated 404 stores across 15 regions of Russia, Ukraine and Kazakhstan.

Our strategy for the year 2005 was one of managed growth. We continued to grow both through organic store openings, and also through selective real estate acquisitions.

In June 2005, Pyaterochka acquired 18 stores, which had been operated by Narodnaya Kopeika in St. Petersburg for approximately USD61 million, providing the company with 18 high-traffic locations with an existing discounter customer base. These 18 locations were all rebranded and opened as Pyaterochka stores within two months of the acquisition.

In December 2005, Pyaterochka has signed an agreement to purchase 25 stores in the Moscow area from CPT, the largest franchisee of TD Kopeika, for a total consideration of USD90 million (USD9 million of which was paid in 2005). This acquisition not only provided us with 25 locations in the Moscow area with an existing discounter customer base, but also had a significant impact in reducing the number of stores in Moscow controlled by our closest competitor in the city. The 25 stores acquired in December were not included in the 91 new stores opened in 2005, The majority of the stores will be rebranded and opened as Pyaterochka stores by early 2006.

Outside of our core markets of Moscow and St. Petersburg, where we continue our strategy of managing our operations solely through Pyaterochka Holding without the use of franchisees, we have developed a dual strategy for the regions of Russia, Ukraine and Kazakhstan. We continue to use the franchise model and to sign new master franchise agreements with partners in new cities across the regions of Russia, and believe this model is the best strategy for Pyaterochka to expand its presence across Russia and the CIS.

In addition to opening new regions via franchising, we began in 2005 a programme of selective acquisition of some of the more mature regional businesses from our franchise partners. We announced the first such transaction in June 2005. In December 2005 100% equity of Economtorg, Ural Retail and Legion were aquired, the Pyaterochka business in Yekaterinburg in the Urals region. For a total consideration of approximately USD14.5 million, Pyaterochka acquired 21 stores in the city of Yekaterinburg. These stores and their operations were consolidated by Pyaterochka Holding beginning on 31 December 2005.

Across our operations, we have continued to be a leader in the Russian retail market through our continued investment in logistics and distribution capabilities. In 2005 we continued construction of our 30,000 square metre distribution centre facility in Podolsk, Moscow region, which is scheduled to open in May 2006. Construction also continued of Phase 2 of our St. Petersburg distribution centre.

During 2005 we also initiated a comprehensive store improvement programme – first in July 2005 in Moscow, and later in November 2005 in St. Petersburg. The store improvement programme is designed to improve same store sales at our existing locations, and consists of three primary areas: (1) realignment of incentive-based compensation to be tied directly to like-for-like sales results at the store level, (2) a restyling programme for our older stores, and (3) increasing and adjusting the product assortment (SKUs) in response to customer demand.

The initial results from these initiatives have been very promising, and are particularly visible in the performance of our Moscow stores, where the programme was initiated mid-year. The restyling programme, consisting of in-store renovation and introduction of new equipment and displays, has shown very promising results in 2005, with Moscow stores experiencing an increase in sales following restyling of 10% on average, and an increase in sales of 5% on average in St. Petersburg stores, which underwent restyling in 2005. We will continue this programme in 2006, with a target of restyling 45 stores: 25 in St. Petersburg and 20 in Moscow.

We also introduced a highly successful loyalty card programme in both cities in 2005. The loyalty card is sold for 45 RUB (approximately USD1.65) and entitles holders to discounts on our private label products and a small selection of branded products. The programme was launched in May 2005 in St. Petersburg, where over 1,000,000 cards were sold (meaning that Pyaterochka's card is in 1 of 4 wallets in St. Petersburg!). The cards were launched in Moscow in September 2005, where over 400,000 cards were sold by year end.

I look forward to 2006 with enthusiasm and an understanding that we have set very ambitious goals for the company, having raised our new store opening target for 2006 to 130 new stores in our core markets. In addition to new store openings, I am very focused on our store improvement programme, and the measures we are taking to ensure that we not only grow through new store openings, but also to grow sales at our existing stores. Finally, we continue to adapt our business model to meet the changing demands of the Russian consumer – increasing the number of SKUs on offer and growing our selection of fresh, perishable, and non-food products.

As the merger with Perekrestok has closed as of 18 may 2006, I look forward to the remainder of 2006 with enthusiasm about the Enlarged Group and our potential for growth going forward. Although both companies will continue to operate their respective brands and formats, a corporate centre led by Lev Khasis, Group CEO, and Vitali Podolsky, Group CFO, is already working on an initial integration plan. We will return to our shareholders in early September with our first combined, consolidated financials for the Enlarged Group (1 H 2006), as well as an update on our strategy and results of the initial integration process.

Oleg Vysotsky
chief executive officer

CFO Review

2005 was a year of both rapid growth and many firsts for Pyaterochka. We completed the IPO of the business in May 2005, with a listing on the London Stock Exchange and the free float of over 32% of the business, making Pyaterochka by far the most transparent and liquid of Russian retailers. In addition, we launched our first rouble-bond issues, and completed a series of real estate acquisitions.

Gross banner sales for Pyaterochka reached a record high in 2005 of USD2,084 million, up 31% from 2004. Net consolidated sales grew 23% to reach USD1,359 million. An impressive result in the rapidly changing and competitive landscape that is Russian retail.

Like-for-like sales in US dollar terms for the 12 months of 2005 were varied, with Moscow showing +4.8% LFL growth, composed of basket growth of +9.4% and a decline in traffic of –3.7%. In St. Petersburg, LFL sales showed a decline of –5.9%, composed of basket growth of +9.0% and a decline in traffic of –13.5%. Much of the decline in St. Petersburg is attributable to our own new store openings, and to the delay in launching the store improvement programme in that city, which only started in November in St. Petersburg compared to July in Moscow. We are confident that the store improvement programme will have a positive effect on same store sales, and expect a significant turnaround in 2006.

In addition to continued sales growth, Pyaterochka experienced further margin expansion in 2005. Gross margin was 24.9% in 2005, up from 22.2% in 2004. Pyaterochka also experienced an EBITDA margin of 12.0% in 2005, an increase from 2004's healthy margin of 10.0%. Profitability was also strong with a 7% net profit margin in 2005. We were able to expand margins during 2005 as a result of purchasing power from our expanded store as our network of stores grew.

We received supplier bonuses equivalent to 6.2% of sales in 2005, primarily driven by volume-related and new store opening bonuses. In addition, private label goods increased to 10% of sales by year end, also contributing slightly to our margin expansion.

We also kept a firm control over costs in 2005. Labour costs were equivalent to 7% of sales, a slight increase from 2004 levels. Whilst we have experienced wage pressure at the store level, we have also been able to reduce the number of employees at the head office and store levels. At the end of 2005, we averaged 38 employees per store (split over 2 shifts).

Organic capital expenditures reached USD201.7 million in 2005. In addition, the company spent approximately USD61 million to fund the acquisition of 18 stores from Kopeika in St. Petersburg, and USD14.5 million for the acquisition of our franchisee in Yekaterinburg (21 stores). The majority of organic capex was focused on our expansion of our distribution centre facilities, as well as our 2005 new-store opening programme.

To finance our rapid growth and strategic acquisitions, Pyaterochka completed two rouble-bond offerings in 2005, the first in March 2005, when the company sold a 5-year rouble-bond as at 31 December 2005 equivalent to approximately USD52.2 million (11.45%), and the second in December 2005, a 5-year rouble-bond as at 31 December 2005 equivalent to approximately USD104.2 million (9.3%). Traditionally, operating cash flow has been equal to our organic capital expenditure needs.

However, as we continue to grow more rapidly than we have in the past, we will look to the debt markets to finance growth going forward, particularly in the current favourable rate environment.

Looking towards 2006, we expect the group to continue its aggressive rollout of new stores. Further the group will continue to invest in distribution and logistics to reduce complexity, increase profitability and increase stock availability. The group will continue to optimize staffing levels in its stores.

Angelika Li
chief financial officer

Stock Market and IPO Review

Pyaterochka's global depositary receipts (GDRs) were admitted to the UK Listing Authority Official List on 11 May 2005, in conjunction with the company's IPO and listing on the London Stock Exchange.

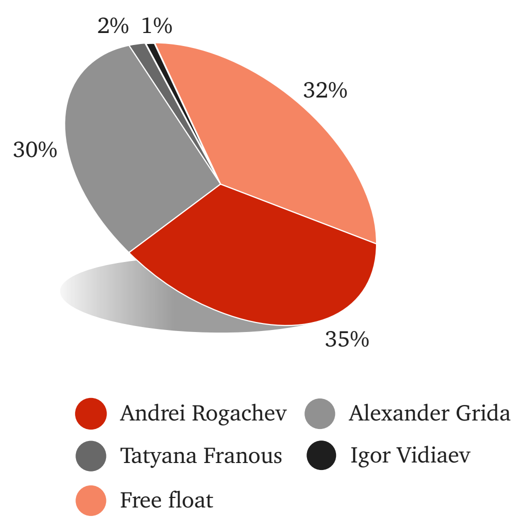
The global offering was priced at USD13.00 per GDR and raised USD598 million. Closing and settlement of Pyaterochka's Global Offering of 45,968,144 GDRs was completed on 6 May 2005. The GDRs are listed on the London Stock Exchange under the symbol "FIVE". The GDRs are issued by The Bank of New York as Depositary. Credit Suisse First Boston and Morgan Stanley acted as Joint Global Coordinators and Bookrunners for the offering.
Pyaterochka currently has 38,306,785 ordinary shares outstanding as of 31 December 2005. Each GDR represents 0.25 ordinary shares. The company's ordinary shares are not currently listed.

Pyaterochka Holding N.V. is a Joint stock liability company incorporated in the Netherlands under Dutch law and not incorporated in Russia. The GDRs offered in the global Offering are depositary receipts representing shares in Pyaterochka Holding N.V., a Dutch company and do not, by their terms and conditions, represent equity securities of any issuer incorporated in Russia.

The incorporation of Pyaterochka Holding N.V. predates the global offering by several years and was not driven by any structuring concerns relating to the global offering. As a company with significant operations in Russia, Pyaterochka Holding N.V. observes the requirements of the regulatory framework set out by the Federal Financial Markets Service of the Russian Federation, to the extent applicable to a company incorporated in the Netherlands.

The company believes it has complied with all applicable Russian and other relevant securities laws in connection with the global offering. Pyaterochka will consider listing its securities in Russia should the existing legal framework for the registration of securities in Russia enable it, as a foreign issuer, to do so.

Pyaterochka shareholder base post-IPO



Strategy: 2006 and Beyond

Core Markets
- Continued growth in new store openings via both organic and inorganic opportunities
- Real estate is priority number one as the Russian retail landscape grows more competitive
- Implementation of store improvement programme, restyling of older stores

Regional Expansion
- Continued use of franchise structure to expand to new regions
- Selective acquisition of regional franchise partners and creation of regional "clusters"

Store Operations
- Expansion and adjustment of SKUs to meet customer demands
- Every day low prices competitive with discounters, hypermarkets and open-air markets
- Incentive-based compensation with focus on same-store sales performance
- Reduction of number of in-store personnel
- Improving the customer experience

Logistics and Distribution
- Continued investment in distribution centre capacity in Moscow and St. Petersburg
- Launch of regional distribution centres outside of core markets

Long-Term Store Opening Targets

By 2012, Pyaterochka plans to have:

250 stores in St. Petersburg area
500 stores in the city of Moscow
250 stores in Moscow region
+
1200 stores
across 30 Russian regions…

over
2200 stores
across Russia and CIS by the end of 2012!

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 an 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 the Management board, the management teams of the subsidiaries 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 identifying, assessing and monitoring the risks, for the effectiveness of all processes, including the internal control processes, and for reporting on all these matters.

The Management Board considers that to the best of their knowledge, throughout the year ended 31 December 2005 and to date, Pyaterochka has acceptable operational risk and control systems. Management is continuously working on further improvement of the systems in order to create reliable insight into the effectiveness and efficiency of operations, reliable financial and other information.

Credit risk – The Group's credit risk is primarily attributed to its receivables and prepayments. The credit risk attributable to receivables and prepayments is limited due to a diversified base of counterparties. The Group does not have specific policies in place to mitigate these risks.

Interest rate risk – The Group is exposed to interest rate risk as a certain portion of its borrowings is at variable interest rate or short-term in nature, and the Group's refinancing activities are subject to risks associated with changes in the applicable interest rate. The Group does not hedge against these risks.

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

Fair values – The fair value of assets and liabilities are not materially different from the financial statement carrying values, unless specifically indicated elsewhere in these financial statements.

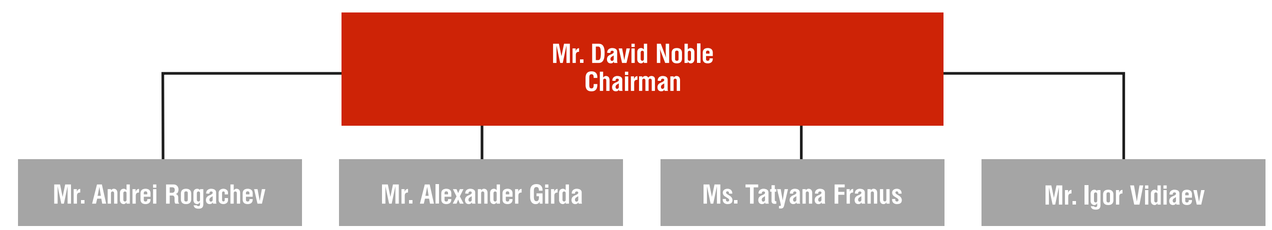
Corporate Structure

Pyaterochka Holding N.V. ("Pyaterochka"), which is incorporated in 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 Pyaterochka and through which the group manages its stores and franchising programme. In March 2005, Pyaterochka Holding N.V. become the parent company of Speak Global, a company incorporated in Cyprus. It is a wholly owned subsidiary of the company and is the owner of the Pyaterochka trademark in Russia.

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

Supervisory Board

The Supervisory Board is responsible for the supervision and guidance of the Management Board, which in its turn is responsible for Pyaterochka's overall management. The Supervisory Board meets at least four times per year. The Supervisory Board currently consists of five members: David Noble (Chairman), Andrei Rogachev, Alexander Girda, Tatyana Franus, and Igor Vidiaev.



Supervisory Board Member Biographies

Mr. David Noble (42), British, the Chairman of the Supervisory Board, is a former director at British grocery retailer Somerfield. In 2001, he was engaged by the EBRD as an industry expert and later joined the Supervisory Board as a non-executive member. Mr. Noble has been involved in the food industry for over 16 years. In 1998 to 1999, he worked at Supermarket Direct and as Joint Managing Director was involved in the sale of the business to Somerfield plc. At Somerfield Plc (1999 to 2000) Mr. Noble was a Director and member of the Board of Somerfield Direct Ltd. and was responsible for operations and development of the home delivery business. From 1995 to 1998, Mr. Noble was Finance Director of Wonderfoods Ltd, one of the largest distributors of food products in Nigeria. Mr. Noble holds an MBA from Cranfield School of Management (1995). Mr. Noble is also a non-executive Director of Morleys of Bicester Ltd, Altergrpahics Ltd and Stankerr Estates Ltd.

Mr. Andrei Rogachev (42), Russian, is a co-founder and the principal holder in the business. Mr. Rogachev received his first degree from the Meteorology Institute of St. Petersburg (1986). He also graduated from St. Petersburg Technical University with a major in finance (1996) and received a PhD from St. Petersburg State University of Economics and Finance (1997). Mr. Rogachev started his career in 1989 as an environmental researcher and he later set up and ran a small enterprise specialising in the design and production of environmental surveying equipment. In 1991, he moved into computer wholesaling and headed the Russian Computer Exchange. From 1992 to 1997, he worked in financial services in such areas as commodity trading, investment projects in wholesale food supply and property development. He held the position of Deputy Chairman of Stema Bank from 1993 to 1996 and served as a co-ordinator of the Banking Confederation. Mr. Rogachev joined the Group in 1998.

Mr. Alexander Girda (45), Russian, is another co-founder of the business. A graduate of the Riga Institute of Civil Engineers (1983), Mr. Girda has a background in civil aviation and industry. Since 1992, he has been Director of LEK Trading House, a major importer and wholesale supplier of dairy products. Mr. Girda joined the Group in 1998.

Ms. Tatyana Franus (48), Russian, is a graduate of St. Petersburg State University with a degree in applied mathematics and accounting systems. Her career has included senior finance positions within a German trading company. She has a finance degree from St. Petersburg State University of Economics and Finance. Prior to joining the group in 1998, Ms. Franus was Head of Finance at United Food Company, a wholesaler and distributor of canned food products.

Mr. Igor Vidiaev (44), Russian, has been with Pyaterochka since 1998 serving as Chief Operating Officer and later as Chief Executive Officer. Formerly a senior officer in the Russian navy, he has held senior positions in the banking and finance industries. Prior to joining Pyaterochka, Mr. Vidiaev was Senior Vice President of LEK Estate, a property developer in St. Petersburg. Mr. Vidiaev holds a degree in Economics from St. Petersburg Technical University (1996) and a PhD in economics from St. Petersburg State University of Economics and Finance (1997).

Corporate Governance

On 9 December 2003, a committee commissioned by the Dutch Government published a new Dutch corporate governance code. Under this code, the provisions of which took effect on 1 January 2004, the Supervisory Board should consist of independent persons, except for one member.

At the moment, Pyaterochka is not compliant with this provision. Pyaterochka intends to appoint a second independent member to the Supervisory Board in 2006. The Company has decided on the gradual implementation of this best practice provision in order to maintain an adequate number of persons on the Supervisory Board with in-depth knowledge of the company's business.

Management Board

The Management Board is responsible for the company's overall management and currently consists of three members: Oleg Vysotsky (CEO), Angelika Li (CFO), and Wim Rieff (Corporate Secretary). Victor Beliakov (Corporate Strategy) was a member of the Management Board prior to his resignation as of 1 November, 2005. The Management Board meets at least 12 times per year.

Management Board Member Biographies:

Mr. Oleg Vysotsky (37), Russian, the company's Chief Executive Officer, is a graduate of the Makarov State Navel Academy in St. Petersburg. Prior to joining the company in 1998, Mr. Vysotsky worked in the merchant fleet and later headed the logistics divisions of several leading wholesalers in St. Petersburg.

Ms. Angelika Li (34), Russian, the company's Chief Financial Officer, holds a degree in economics from St. Petersburg State Technical University. Before joining Pyaterochka as a finance director in March 2001, her career included senior finance positions in the banking, audit and publishing industries.

Mr. Wim Rieff, Dutch, (46) joined the group in 2002 and is Pyaterochka's Corporate Secretary. He is also employed by Mees Pierson Intertrust B.V. and has held a number of senior positions over the last 28 years.

Director Compensation

The directors received a remuneration of:

	2005	2004	2003
	thousand USD	thousand USD	thousand USD
Vysotsky	174	0	0
Li	151	0	0
Rieff	31	7	6
Beliakov	-	-	-
Total, thousand USD	356	7	6

The Supervisory Board of Directors received a remuneration of:

	2005	2004	2003
	thousand USD	thousand USD	thousand USD
Girda	349	222	2,361
Franus	349	240	2,359
Noble	24	-	-
Rogachev	349	351	2,412
Vidiaev	349	347	2,467
	1,420	1,160	9,599

Employee stock incentive plan

The Pyaterochka Group has established a stock incentive plan for certain of its executives and key employees, including members of the Management board and executive officers (collectively, Eligible Participants). Under the terms of the plan, Eligible Participants may be granted options to acquire the economic benefit in, or receive the cash value of, a certain number of GDRs. The grant of any such option to any Eligible Participant, and the number of GDRs subject to such option, will be subject to certain performance criteria specific to such Eligible Participant being met, including, inter alia, the Pyaterochka Group achieving certain EBITDA, store roll-out and cost containment or reduction targets. The Company may vary or waive such performance criteria.

Any option granted may not be exercised earlier than on the third anniversary of its grant. The exercise price of any such option will be equal to the aggregate nominal value of the shares represented by the GDRs subject to such option. The Pyaterochka Group will bear the costs associated with the stock incentive plan, either by purchasing a requisite number of the GDRs on the market or, at the option of the Pyaterochka Group, procuring that a sufficient number of shares are issued by Pyaterochka and deposited with the Depositary. Options were granted under the stock incentive plan in August and December 2005. The costs associated with the plan over its term will not exceed USD150 million.

The following members of the Board of Supervisory Directors and Management board hold options over GDRs.

The exercise price for each of the options is euro 0.25 per option.

Name	Number of options	Vesting date	Exercise period
Igor Vidiaev	766.136	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Igor Vidiaev	612.909	Between 16 May 2006 and 16 August 2009 (inclusive)	12 months commencing 16 August 2009
Igor Vidiaev	919.363	Between 16 May 2006 and 16 August 2010 (inclusive)	12 months commencing 16 August 2010
Tatiana Franus	766.136	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Angelika Li	191.534	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Angelika Li	191.534	Between 2 June 2007 and 2 December 2008 (inclusive)	12 months commencing 2 December 2008
Oleg Visotsky	383.068	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Oleg Visotsky	383.068	Between 2 June 2007 and 2 December 2008 (inclusive)	12 months commencing 2 December 2008

Report of the Supervisory Board and its Committees

Annual report

The annual report has been examined by Deloitte Accountants B.V. and approved by the Supervisory Board. We recommend that you adopt the annual report of 2005 as presented to you and further approve the transfer of the financial results of 2005 to the other reserves of the company.

We recommend that you grant a full discharge to the Management Board for their management of the year 2005 and to the Supervisory Board for their supervision during 2005.

Supervision

The supervision over the policy decisions and actions of the Management Board is entrusted to the Supervisory Board, which, in the two tier structure prescribed by Dutch law, is a separate body. Reference is made to the Corporate Governance statement with respect to the independence of the Supervisory Board.

Members and Composition

At the end of 2005, the Supervisory Board consisted of five persons. The composition of the Supervisory Board, which has not changed in 2005, is mentioned on pages 19-20.

Management Board Composition

Mr. Viktor Beliakov retired from his position as member of the Management Board as per November 1, 2005 to pursue other interest. The Supervisory Board thanks Mr. Beliakov for his valuable contribution over the past years.

The corporate structure of the company as well as the composition of the Management and Supervisory Board are stated on pages 18-20.

Meetings

Six Supervisory Board meetings were held in 2005. Most of the meetings were held at the Amsterdam office. There was frequent contact and close consultation between the members of the Supervisory Board and the Management Board.

The following topics were discussed at the meetings:

- To obtain listing of shares;
- The 2004 financial statements and the annual report;
- Issuance of the two rouble bond offerings;
- Dividend policy;
- Acquisition policy;
- Remuneration of the Board of Managing Directors
- Business operations
- Corporate governance and compliance with the Dutch Corporate Governance Code
- Insider trade rules
- Internal risk management and control systems
- 2005 Financial statements

Corporate Governance

The Supervisory Board is amongst others responsible for monitoring compliance with corporate governance standards in the Netherlands. The Supervisory will adhere to the principles as set out in the Dutch Corporate Governance Code.

For that reason the Supervisory Board has set up in February 2006 the principles and rules for the Management and Supervisory Board. The principles have been adopted in February 2006 and will be made available on the Company's website.

We refer to the Corporate Governance Chapter with respect to the requirements to the Supervisory Board report as set by the Corporate Governance Code.

Supervisory Board Committees

In 2005 we have set a great step forward by setting up four Committees.

These committees are 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 will advise regarding the compensation to be paid to members of the Management Board to be adopted by the General Meeting of Shareholders.

The Audit Committee will assist the Supervisory Board in fulfilling its supervision and monitoring responsibilities in respect of internal control in the broadest sense within the Company, 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 Company's officials.

The Selection and Appointment Committee will advise in respect of the selection and appointment of Supervisory and Management Board Members.

The composition of the four committees has changed in February 2006 in order to be in compliance with the Corporate Governance Code and the composition is now as follows:

Remuneration committee:
David Noble
Alexander Girda (chairman)

Audit committee:
David Noble
Tatiana Franus (chairman)

Conflicting Interest committee:
David Noble
Igor Vidiaev (chairman)

Selection and Appointment committee:
David Noble
Andrei Rogachev (chairman)

Retirement and reappointment schedule

Name	Date of initial appointment	End of first term	End of second term	Ultimate date of resignation
Igor Vidiaev	2005	2006	2010	2014
Tatiana Franus	2005	2007	2011	2015
Alexander Girda	2005	2007	2011	2015
Andrey Rogachev	2005	2008	2012	2016
David Noble	2005	2009	2013	2017

Corporate Governance

General

The Dutch Corporate Governance Code (hereinafter "the Code") contains principles and best practices for Dutch companies with listed shares. Our corporate governance policies with respect to the implementation of the Dutch Corporate Governance Code will be submitted to our shareholders at the 2006 General Meeting of shareholders, including those best practice provisions that we do not comply with. In this report we will discuss our corporate governance structure.

The Company will adhere to the principles as set out in the Dutch Corporate Governance Code to the extent possible and desirable. Therefore the Articles of Association have been amended in such a way that the Articles of Association are almost in compliance with the requirements of the Code. The best practice provisions that we do not comply with and the reasons therefore are set out hereunder.

The Company has obtained a listing on the London Stock Exchange on May 11, 2005. As a result of the listing and the fact that the Company has its statutory seat in The Netherlands, the Dutch Corporate Governance Code had to be applied to the Company.

The Company has stated that it will adhere to the Best Practices of the Dutch Corporate Governance Code; however, due to the fact that the Code came into force in May 2005 due to the listing, a transition period of 1,5 year is required in order to embed the Corporate Governance structure into our organisation. Furthermore, the Company has been deeply involved in the time and resource consuming acquisition of Perekrestok Holdings Limited, which will be finalized in May 2006.

In February 2006 a first step has been taken by the Company by adopting the principles and the rules of the management and supervisory board.

As a result of the circumstances as described above, the following principles and best practices of the Dutch Corporate Governance Code has yet not been complied with by the Company:

Approval by the Supervisory Board of the objectives, strategy and financial parameters
Formal approval by the Supervisory Board of the objectives, strategy and financial parameters has not taken place yet.

Internal risk and control system
The Company is currently involved with the design of a formal internal risk and control system.

Whistleblower Policy
The Company will inform employees and publish the policy on the website.

Insider Trading Policy for the Supervisory Board and Management Board regarding securities
The Company will publish the policy on the website; the Company has decided that this policy will be limited to the food industry and retail sector.

Remuneration Policy
The Company will prepare a remuneration report and submit this to our shareholders at a General Meeting of shareholders and the Company will publish this report on the website.

Evaluation by the Supervisory Board of its own and its members functioning and both the functioning of the Management Board as a body and the performance of the individual members of the Management Board
The Company will design this evaluation framework. To date no meetings of the Supervisory Board were held without the presence of the Management Board regarding the functioning of the Supervisory Board and its individual members and the Management Board and its individual members.

Discussion by the Supervisory Board of the corporate strategy, the risks of the business, the result of the assessment by the Management Board and internal systems
Formal discussion by the Supervisory Board of the corporate strategy, the risks of the business, the result of the assessment by the Management Board and internal systems will be performed.

Independency Supervisory Board
The Company is as stated before unable, to comply with all of the Code's principles. For instance not all members of the Supervisory Board are to be considered to be independent, as all Supervisory Board members are Management Board members of subsidiaries and ultimate shareholders with the exception of the chairman, David Noble, who is considered to be independent. The Company is, however, of the opinion that the non independent members of the Board have great in-depth knowledge of the company which is a great advantage to the company and its shareholders. The Company intends to appoint a second independent member to the Supervisory Board in 2006. The Company has decided on the gradual implementation of this best practice provision given the difficulty in identifying candidates with suitable experience in the context of the Pyaterochka Group's predominantly Russian operations and requirements of the Dutch corporate governance code and in order to maintain an adequate number of persons on the Supervisory Board with knowledge of the Company's business.

Supervisory Board profile
The Supervisory Board will, in accordance with the Dutch Corporate Governance Code, draw up a profile for its composition. According to the Dutch Corporate Governance Code, the members should act independently of and critically with regard to each other within a good relationship of mutual trust. They should be experienced in the management of an international, publicly listed company and have sufficient time available to fulfill the function of a Supervisory Board member.

Report by the Supervisory Board on the duties of the Supervisory Board Committees, the composition of the individual committees, number of meetings held and main items discussed
The Supervisory Board Committees have been set up; however no meetings were held in 2005. Meetings will be held in 2006.

Audit Committee Policy / Selection and AppointmentCommittee Policy
These policies will be prepared in 2006.

Rights to shares granted to Supervisory Board member
Options were granted to 2 Supervisory Board members: Ms. Franus and Mr. Vidiaev in their capacity as management board members of subsidiaries.

Management Board will make public and motivate its position if a serious private bid is made for a substantial part of the business
The Company has the intention to adhere to this policy in the future.

Conflicts of interest

All board (Supervisory and Management) members shall immediately report any potential conflict of interest to the Chairman of the Conflicting Interest Committee. All board members shall in such case provide the Chairman with all information relevant to the conflict.

As of listing in May 2005, the Company shared certain back-office functions with the related party Carousel Group including a joint-purchasing arrangement. The Company has been compensated for services performed.

The Pyaterochka group entered into two loan agreements with its shareholder, Marie-Carla Corporation N.V. in order to finance the purchase of LLC Beta Real Estate retail network in St. Petersburg. Both loans were repaid in 2005

The Company declares that best practice provision II.3.2 through II.3.4 and III.6.1. through III.6.3 have been complied with.

Appointment, suspension and dismissal

The General Meeting of Shareholders shall appoint the members of the Management and Supervisory Board from a list of nominees, containing names of at least two persons for each vacancy, to be drawn by the Supervisory Board. The nomination of the recommended candidates is binding, and therefore the recommended candidate will be elected by the shareholders unless rejected by a qualified majority vote of at least two-thirds of the votes cast, representing more than one-half of the issued share capital. If the recommended candidate is rejected, the second nominee will be appointed unless similarly rejected.

The Supervisory Board members appoint a Chairman from amongst their midst and a deputy Chairman who shall take the place of the chairman in the latter's absence.

The Supervisory Board is currently composed of five members. The Supervisory Board members are appointed for a period of four years and may be reelected twice.

Remuneration

The remuneration of the individual board members of the Management Board will decided upon by the Supervisory Board on the recommendation by the Remuneration Committee of the Supervisory Board, based on the Company's Remuneration Policy that needs to be developed. As stated before the principles of the board have been adopted in February 2006. The envisaged acquisition of Perekrestok Holdings Limited prevented the Company of preparing the Remuneration Policy in time.

The Company has adopted a stock option plan, which has been submitted to and adopted by the General Meeting of Shareholders in 2005. The option plan does mention pre-specified performance criteria as required for members of the Management Board by the Dutch Corporate Governance Code.

In general, we agree with the Dutch Corporate Governance Code that in most circumstances a maximum severance Payment of one year for Management Board members is appropriate. However, we want to reserve the right to agree to different amounts in case we deem this to be required by the circumstances. Any deviations will be disclosed to the Annual General Meeting of Shareholders.

Operational Review

Core Markets: St. Petersburg Area

St. Petersburg was where Pyaterochka opened its first store and has historically been the city where we have had the highest concentration of stores. We continued to grow our operations in this city rapidly in 2005, opening 56 new stores, 18 of which we acquired from Kopeika.

Our current portfolio of stores in St. Petersburg consisted of 167 stores as of 31 December 2005. Of these 167 stores, 41 were built by Pyaterochka, 55 were purchased, and 71 are leased.

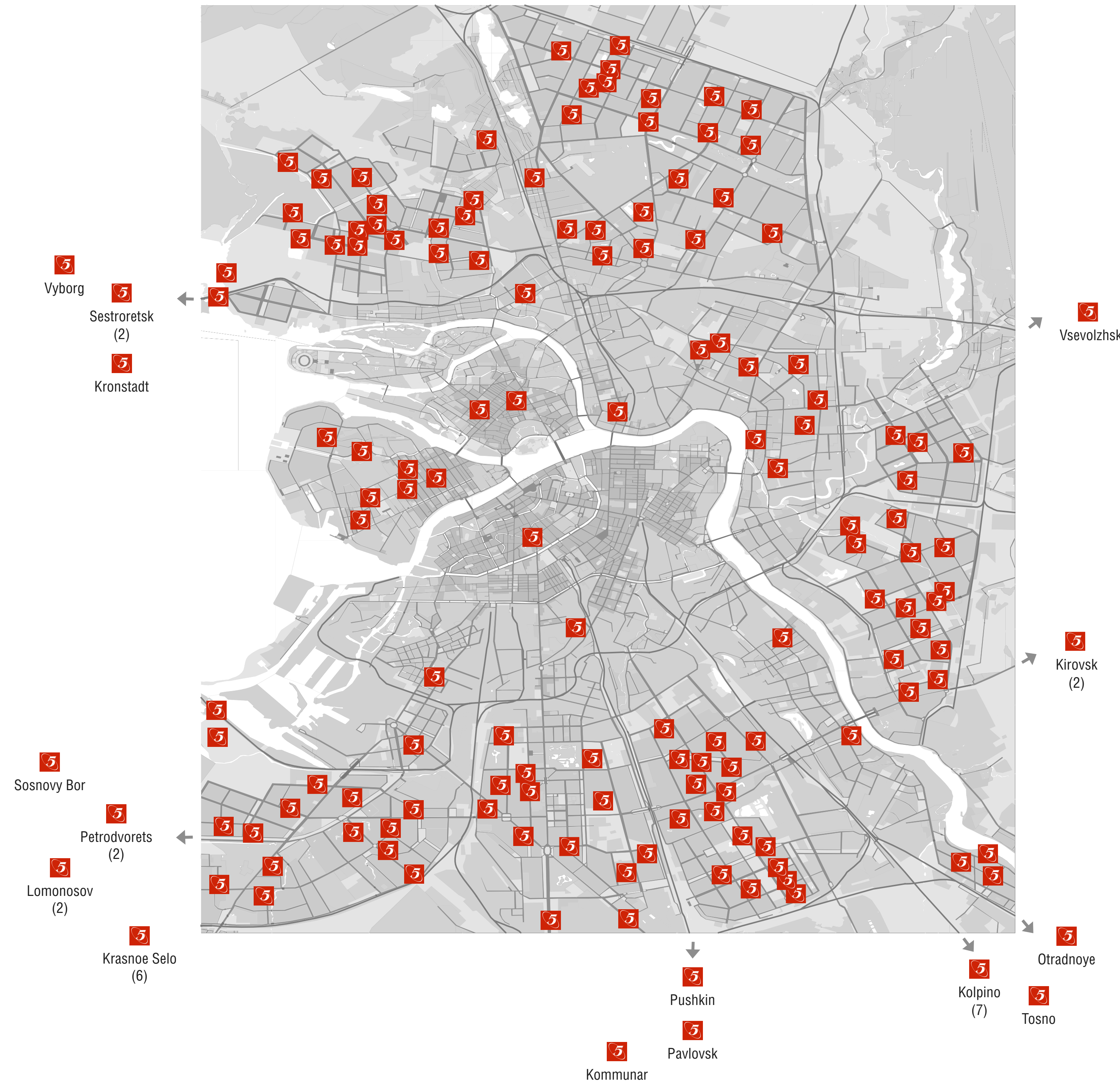
Consolidated net sales at our St. Petersburg stores reached USD708 million in 2005.

As of 31 December 2005, our St. Petersburg stores had total space of 163,770 sq. metres, including net selling area of 96,167 sq. metres. An average store in St. Petersburg had total space of 981 sq. metres, and net selling area of 576 sq. metres as of 31 December 2005.

Our St. Petersburg stores have historically had higher sales densities than our stores in the Moscow area, due to both our first-mover advantage and position as one of the first retailers to open stores in St. Petersburg.

Our long-term store target in the St. Petersburg area is 250 stores. We will come close to achieving this target by the end of 2006, as we plan to open an additional 61 stores in St. Petersburg during the year.

Our store improvement programme was launched in St. Petersburg in November 2005, and we are confident that the impact of these measures will be visible in the company's financial and operating results in 2006.



St. Petersburg area Pyaterochka stores as of 31 December 2005

Core Markets: Moscow Area

Pyaterochka expanded into Moscow and the Moscow region in 2001, and has rapidly grown its operations in Russia's capital and the surrounding areas. In 2005, Pyaterochka opened 35 new stores in the Moscow area (excluding the acquisition of 25 stores from Kopeika's largest franchisee in December 2005, which will be incorporated in our 2006 store openings).

Our current portfolio of stores in Moscow and the Moscow region consisted of 159 stores as of 31 December 2005. Of these 159 stores, 1 was built by Pyaterochka, 61 were purchased and 95 were leased.

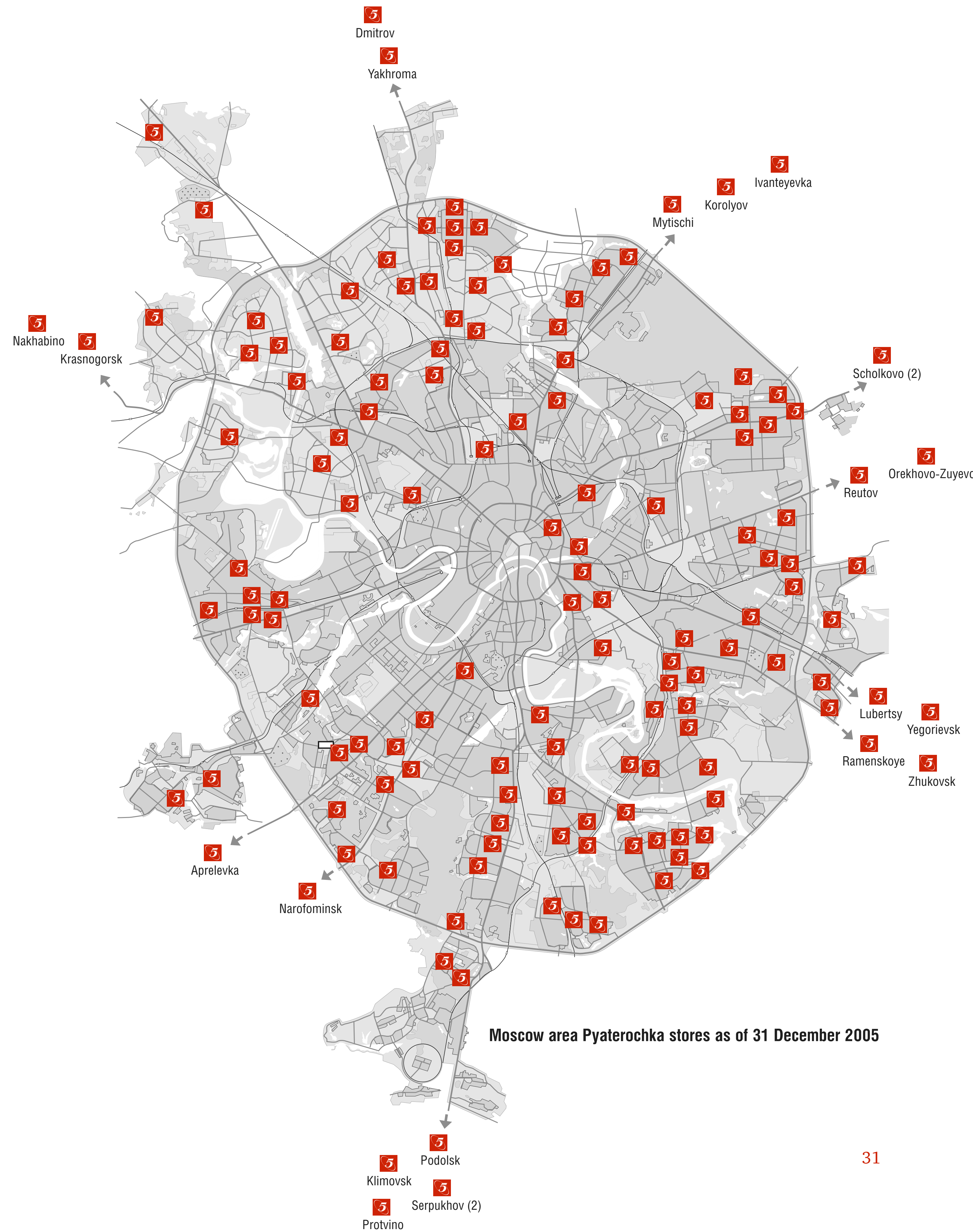
Consolidated net sales at our Moscow area stores reached USD644 million in 2005.

As of 31 December 2005, our Moscow area stores had 157,431 sq. metres (total space), including net selling area of 100,174 sq. metres. An average store in Moscow had total space of 990 sq. metres, and net selling area of 630 sq. metres as of 31 December 2005.

Our Moscow stores have historically had lower sales densities than our stores in St. Petersburg, in part due to greater competition in Russia's capital, and also due to our later start in opening stores in Moscow. However, we have continued to grow both our sales densities and same-store-sales in Moscow (+5% in 2005).

Our long-term store target in Moscow and the Moscow region is 750 stores, with 500 stores in the city of Moscow (population 10 million) and 250 stores in the Moscow region (population 5 million). We plan to achieve this target by 2012, and plan to open 69 new stores in the Moscow area in 2006.

Our store improvement programme was launched in Moscow in July 2005, the results of which we have already witnessed in the impressive LFL store performance which we experienced in Moscow in the second half of 2005.



Moscow area Pyaterochka stores as of 31 December 2005

Regions: Franchise Programme

Pyaterochka uses franchise agreements to expand into the Russian regions beyond Pyaterochka's core markets, as well as into neighbouring countries.
As of 31 December 2005, Pyaterochka's franchisees operated 404 stores under the Pyaterochka brand in 15 regions of Russia, Ukraine and Kazakhstan (outside of the Moscow and St. Petersburg areas). Pyaterochka's franchisees opened 197 new stores in 2005 (up from 207 total franchised stores as of 31 December 2004). The 21 stores in the Yekaterinburg region were acquired by Pyaterochka in 2005 and became company-managed as of 31 December 2005.

Pyaterochka currently has master franchise agreements in 18 regions of Russia, Ukraine and Kazakhstan (4 regions have yet to open their first store).

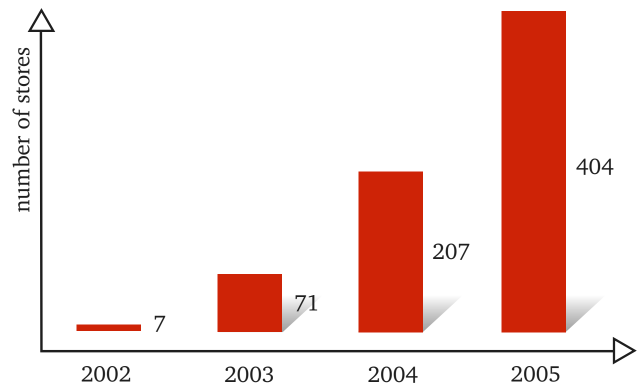
The use of franchise arrangements (as opposed to opening its own stores) allows Pyaterochka to concentrate its operational, financial and management resources on its core markets whilst enabling expansion into other areas. Franchisees also contribute local expertise and knowledge of local market conditions.

Pyaterochka appoints one franchisee per Russian region outside of its core markets. During 2005, Pyaterochka signed 8 new master franchise agreements in the following cities: Yaroslavl, Novosibirsk, Krasnodar, Kazan, Krasnoyarsk, Belgorod, Vologda and Barnaul.

In addition to the company's continued use of the franchise model, Pyaterochka launched in 2005 a programme of selective regional consolidation, beginning with the acquisition of 100% of Economtorg, Ural Retail and Legion, the company's franchise partner in the city of Yekaterinburg. Going forward, Pyaterochka will consider selectively acquiring more mature regional businesses, with the goal of consolidating these operations and eventually expanding logistics and distributional capabilities to develop regional centres. The company will also consider buying a majority stake (e.g. 51%) and continuing to partner with the franchisees in regional cities to grow the business further.

In the long-term, Pyaterochka intends to have a presence in at least 30 of Russia's 89 federal regions. Some of these stores will continue to be operated by franchisees, while other regions will have been selectively acquired by Pyaterochka Holding N.V.

Number of stores operated by franchisees,
year end



Regions with Pyaterochka master franchise agreements (number of stores in each region as of 31 December 2005)

* Pyaterochka acquired 100% of the Yekaterinburg operations in 2005 from its former franchise partner. These 21 stores began to operate as company-managed as of 31 December 2005.

Discount Card Programme

During 2005, Pyaterochka launched a loyalty card programme, which has been highly successful. Cards are sold at Pyaterochka stores for 45 Russian roubles (approximately USD1.65). The cards entitle holders to a discount (generally 10–15%) on private label products and a selection of branded products on advertised weekly special (“sunny” yellow prices).

The cards, in addition to being a very effective marketing tool, are also a source of profit for the company, as they cost approximately 8 Russian roubles to produce.

The programme was launched in May 2005 in St. Petersburg, where over 1,000,000 cards were sold. This means that 1 in 4 residents of St. Petersburg hold a Pyaterochka loyalty card.

The programme was launched in September 2005 in Moscow, where over 400,000 cards were sold by the year end.

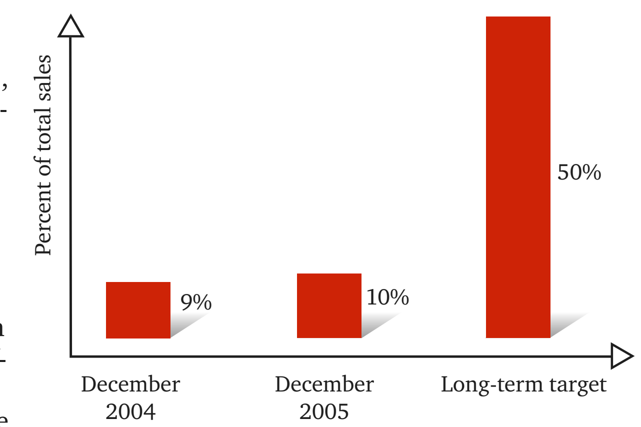
The cards have also been the focal point of Pyaterochka’s television advertising campaign in 2005, and will continue to be an important promotional tool in 2006.

Private Label

Pyaterochka currently offers its customers a wide range (approximately 250 SKUs) of private label products under both the Pyaterochka brand and other brands developed in-house. Private label goods grew to 10% of total sales by December 2005, and are expected in long term perspective reach levels of up to 50% of total sales.

Pyaterochka’s first private label products were introduced in 2001. By the end of 2005, Pyaterochka offered 250 SKUs of mostly food items developed in cooperation with approximately 150 manufacturers. The focus of the private label business is primarily on fast selling, non-perishable and medium-length shelf-life food products (such as pasta, pancakes) and beverages (such as vodka, carbonated soft drinks). There are also a number of non-food items sold under private label (such as dishwashing detergent).

Private label, percent of total sales



Pyaterochka believes that the quality and design of Pyaterochka’s private label goods meet or exceed that of the equivalent branded products. Private label goods are sold at an average discount of 10–15% vs. the comparable branded product.

Although Pyaterochka’s private label goods are priced at a discount to the equivalent branded products, due to the absence of significant marketing and advertising costs in the price of these goods, these goods produce considerable cost savings resulting in a higher gross margin compared to branded products (pre-bonus). In 2005, the gross margin on the average private label product was roughly 7% higher than that of a branded product (pre-bonus).

Pyaterochka does not currently receive supplier bonuses on private label products, but this may be a possibility in the future as private label goods increase as a percentage of overall sales.

Products and Pricing

Pyaterochka offers its customers a well-selected range of up to 5,000 SKUs which cover the majority of customers' basic shopping needs.

Pyaterochka's product range grew during 2005 from approximately 3,500 items, to up to 5,000 items by the end of the year. This was primarily in response to customer demand for a greater selection of fresh and perishable products, including a wider selection of fresh fruit and vegetables, meat and fish, and non-food products.

Food products comprised 89% of Pyaterochka's sales, with the remainder coming from non-food products. The high percentage of domestically produced items in the range provides Pyaterochka with an advantage in terms of lower logistics and transportation costs vs. those retailers who offer a higher percentage of imported goods in their range.

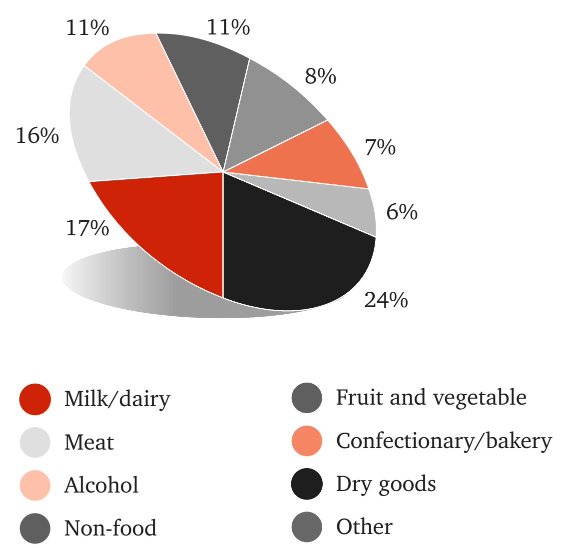
Food products comprise 89% of Pyaterochka's sales. Fresh and perishable products represent approximately 25% of sales.

Pyaterochka is positioned in the Russian market as a value-focused retailer that is competitive on price. Pyaterochka aims to ensure that 150 key value items are sold at the lowest price available in the relevant retail market, with the remaining products sold at the average price offered by Pyaterochka's direct competitors in the local market.

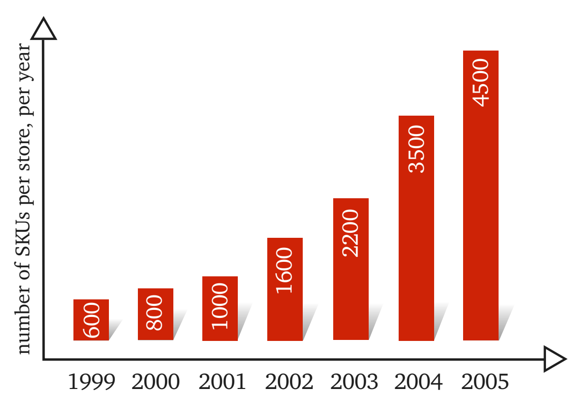
Independent "basket" surveys showed throughout 2005 that Pyaterochka's average basket of goods was equivalent to or less expensive than a similar basket at the company's direct competitors – other discounters and hypermarkets.

Pricing is determined both centrally and separately for the Moscow and St. Petersburg areas. Direct pricing comparisons are made in each city with regard to the 150 key value items though a weekly survey of price levels at both direct organised retail competitors and at the open air markets.

Pyaterochka's 2005 sales by product category



Pyaterochka's average number of SKUs
per store, per year



Restyling Programme

During 2005, Pyaterochka launched a restyling programme in the context of the company's store improvement programme, geared at improving the customer experience at the company's older store locations.

For a store, restyling is both a renovation of the exterior and interior of the store, and the purchase of new display shelving and equipment. Generally, a store is closed for up to 20 days for the restyling. The renovation provides a new look to both the outside and inside of the store, including new floors, lighting, shelving, refrigeration equipment, and check out areas.

The initial results of the restyling programme have been extremely promising. On average, restyled stores in Moscow showed initial sales improvements of +10% following restyling. In St. Petersburg, restyled stores showed initial sales improvements of +5%.

During 2006, Pyaterochka plans to restyle an additional 45 stores: 25 in St. Petersburg and 20 in Moscow. The average cost of a store restyle is USD400,000 in St. Petersburg and USD450,000 in Moscow. The majority of this expense is equipment (approximately USD300,000).

Distribution and Logistics

Pyaterochka has continued to be a leader in the Russian retail market in terms of logistics and distribution capabilities. We currently deliver 50% of products directly from our distribution centres to the stores, with our suppliers making the remaining 50% of deliveries directly to the stores.

We continued construction in 2005 of Phase 1 (30,000 sqm) of our distribution centre facility in Podolsk, Moscow region, which is scheduled to open in June 2006. During 2005, Pyaterochka served its Moscow area stores from three leased distribution centre facilities.

We also continued construction of Phase 2 of our St. Petersburg distribution centre, which opened in early 2006, adding an additional 8,400 sq. metres of capacity. This will be in addition to the original 10,500 sq. metres of capacity at our current St. Petersburg location, opened in 2003 and from which we served our St. Petersburg area stores in 2005. Therefore, our capacity in St. Petersburg will reach almost 18,900 square metres by early 2006.

Looking forward, Pyaterochka also plans to build an additional St. Petersburg distribution centre of 15,000 square metres, to be completed in 2007. In addition, Phase 2 of the Podolsk, Moscow region distribution centre is scheduled to add an additional 20,000 square metres of capacity (bringing the total at this site to 50,000 square metres) in 2007.

Pyaterochka plans to increase the percentage of direct deliveries from our distribution centres to our stores to 75–80% within the next two to three years as a result of our investments in logistics and distribution.

The company's investments in logistics and distribution effectively reduce the transportation costs which our suppliers incur, as they are able to make single deliveries to our distribution centres, rather than delivering to our stores on an individual basis.

Ultimately Pyaterochka plans to extract a "logistics bonus" from our suppliers, beginning in 2006, to recapture some of these cost savings.

Pyaterochka's distribution centres are equipped with WMS Exceed 4000, a modern warehouse management system which allows the company to increase the efficiency of its operations and cater for the increased demand resulting from the opening of new stores.

In addition to the company's investments in Moscow and St. Petersburg, Pyaterochka plans to expand its distribution capabilities in those Russian regions where the company will acquire its franchisees, thus creating regional "clusters" of cities which can be served in the future from a single distribution centre.

2005 Year in Review

01 January

- Pyaterochka unveils store opening target for 2005 of 70 new stores in core markets of Moscow and St. Petersburg

02 February

- Pyaterochka makes offer to shareholders of Kopeika (Moscow) offering to purchase some or all shares in this business

03 March

- Hypermarket project "Carousel" transferred to a separate entity from Pyaterochka
- Pyaterochka launches rouble bond issue equivalent to approximately USD52 million (5 year, 11.45%)

04 April

- Preparation for IPO and listing of shares on London Stock Exchange

05 May

- Launch of initial public offering of Pyaterochka Holding N.V.; free float reaches over 32%; Pyaterochka shares listed and begin trading on the London Stock Exchange
- Pyaterochka launches loyalty card programme in St. Petersburg

06 June

- Pyaterochka announces acquisition of 100% of Economtorg, Ural Retail and Legion, 21 stores in Yekaterinburg
- Pyaterochka acquires 18 Kopeika stores in St. Petersburg for USD61 million

07 July

- "Store improvement programme" launched in Moscow
- Pyaterochka announces opening of 555th store under Pyaterochka brand

08 August

- Kopeika stores in St. Petersburg rebranded and opened as Pyaperochka stores

09 September

- Pyaterochka announces 1H 2005 interim results: net sales up 20%; EBITDA up 46% year on year
- Pyaterochka launches loyalty card programme in Moscow

10 October

- Pyaterochka announces 9M 2005 operating results: 645 branded Pyaterochka stores as of 1 October 2005; 61 new stores added in Moscow and St. Petersburg during 9M 2005

11 November

- Pyaterochka launches store improvement programme in St. Petersburg

12 December

- Pyaterochka acquires 25 Moscow area stores from CPT (Kopeika franchisee) for total consideration of USD90 million (USD9mm paid in 2005)
- Pyaterochka launches second rouble bond issue equivalent to approximately USD104 million (5 years, 9.3%)
- Pyaterochka acquires 100% of Economtorg, Ural Retail, and Legion, 21 stores in Yekaterinburg

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Consolidated Income Statements

For the years ended 31 December 2005, 2004 and 2003

Pyaterochka Holding N.V.

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

The notes on pages 45 to 77 form an integral part of these consolidated financial statements.

Consolidated Balance Sheets

At 31 December 2005, 2004 and 2003

Pyaterochka Holding N.V.

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

The notes on pages 45 to 77 form an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

At 31 December 2005, 2004 and 2003

Pyaterochka Holding N.V.

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

The notes on pages 45 to 77 form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended 31 December 2005, 2004 and 2003

	Notes	2005 mln USD	2004 mln USD	2003 mln USD
OPERATING ACTIVITIES:				
Profit before income tax		120.2	93.9	42.5
Adjustments for:				
Depreciation of property, plant and equipment		25.7	14.5	8.2
Amortisation of long-term prepayments		0.1	0.1	0.2
Loss on disposal of property, plant and equipment		2.3	0.5	0.3
Loss on disposal of long-term prepayments		0.1	-	
Change in provision for doubtful receivables		3.0	0.8	0.5
Change in provision for inventory losses		0.2	0.4	(0.2)
Share-based payments expense		5.4	-	-
Interest expense		13.3	4.5	1.3
Operating cash flow before movements in working capital		170.3	114.7	52.8
Decrease/(increase) in receivables and prepayments		5.8	(28.3)	(15.8)
Increase in inventories		(14.2)	(3.7)	(14.6)
Increase in trade accounts payable		49.9	45.6	31.4
(Decrease)/increase in other payables and accrued expenses		(5.5)	0 .9	25.7
Cash provided by operations		206.3	129.2	79.5
Income tax paid		(23.0)	(16.6)	(7.2)
Interest paid		(11.9)	(4.8)	(0.9)
Net cash provided by operating activities		171.4	107.8	71.4
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(165.2)	(78.7)	(63.3)
Construction in progress		(33.1)	(22.4)	(5.8)
Financing provided to related party		-	(31.6)	-
Proceeds on disposal of property, plant and equipment		2.8	1.4	1.2
Long-term prepayments		(3.4)	(0.3)	(3.1)
Proceeds on disposal of long-term prepayments		1.6	-	-
Acquisition of subsidiaries	24	(74.6)	-	-
Acquisition of other long-term assets		(9.0)	-	-
Net cash used in investing activities		(280.9)	(131.6)	(71.0)
FINANCING ACTIVITIES:				
Proceeds from borrowings		206.8	68.5	33.6
Repayments of borrowings		(40.3)	(21.5)	(27.4)
Net (decrease)/increase in bank overdrafts		(5.4)	(0.6)	4.7
Repayment of obligations under finance leases		(1.2)	(1.6)	(0.7)
Dividends paid		-	(3.4)	(2.3)
Distributions to shareholders		-	(17.9)	-
Net cash from financing activities		159.9	23.5	7.9
EFFECT OF FOREIGN EXCHANGE RATES ON CASH		(8.6)	0.7	0.4
NET INCREASE IN CASH		41.8	0.4	8.7
CASH, beginning of year		14.7	14.3	5.6
CASH, end of year		56.5	14.7	14.3

The notes on pages 45 to 77 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

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

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

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

	31.12.2005	31.12.2004	31.12.2003
St. Petersburg	167	111	92
Moscow	159	124	97
Ekaterinburg (acquired on 31 December 2005)	21	-	-

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

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

A Disclosure for First Time Adoption is provided in Note 32 on page 76 of this report.

2. Presentation of financial statements

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

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

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

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

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

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

3. Adoption of new and revised international financial reporting standards

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

IAS 1 (revised)	"Presentation of Financial Statements"
IAS 2 (revised)	"Inventories"
IAS 8 (revised)	"Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10 (revised)	"Events after the Balance Sheet Date"
IAS 16 (revised)	"Property, Plant and Equipment"
IAS 17 (revised)	"Leases"
IAS 21 (revised)	"Effect of Changes in Foreign Exchange Rates"
IAS 24 (revised)	"Related Party Disclosures"
IAS 27 (revised)	"Consolidated and Separate Financial Statements"
IAS 28 (revised)	"Investments in Associates"
IAS 31 (revised)	"Interests in Joint Ventures"
IAS 32 (revised)	"Financial Instruments: Disclosure and presentation"
IAS 33 (revised)	"Earnings per Share"
IAS 36 (revised)	"Impairment of Assets"
IAS 38 (revised)	"Intangible Assets"
IAS 39 (revised)	"Financial Instruments: Recognition and Measurement"
IAS 40 (revised)	"Investment Property"
IFRS 2	"Share-based Payments"
IFRS 3	"Business Combinations"
IFRS 4	"Insurance Contracts"
IFRS 5	"Non-current Assets Held for Sale"
IFRIC 1	"Changes in Existing Decommissioning, Restoration and Similar Liabilities"
IFRIC 2	"Members' Shares in Co-operative Entities and Similar Instruments"

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

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

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

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

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

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

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

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

IFRS 6	"Exploration for and Evaluation of Mineral Resources"
IFRS 7	"Financial Instruments: Disclosures"
IAS 39 Amendments:	"The Fair Value Option", "Hedges of Forecast Intragroup Transactions", "Financial Guarantee Contracts"
IAS 19 (revised)	"Employee Benefits"
IFRS 4 Amendment	"Financial Guarantee Contracts"
IFRIC 4	"Determining whether an Arrangement contains a Lease"
IFRIC 5	"Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
IFRIC 6	"Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment"
IFRIC 7	"Applying the Restatement Approach under IAS 29"
IFRIC 8	"Scope of IFRS 2"
IFRIC 9	"Reassessment of Embedded Derivatives"

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

4. Summary of significant accounting policies

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

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

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

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

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

Foreign currency transactions – Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All translation differences are recognised in the consolidated income statement.

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

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

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

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

Capitalised 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 capitalisation are charged to the consolidated 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, for those acquired subsequent to valuation, as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

6. Subsidiaries

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

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

The subsidiaries were established between 1997–2005.

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

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

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

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

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

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

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

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

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

7. Revenue

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

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

The Ekaterinburg operations were acquired on 31 December 2005 therefore no amounts were recognised in the consolidated income statement for the 2005.

8. Property, plant and equipment

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

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

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

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

9. Goodwill

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

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

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

10. Other long-term assets

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

11. Inventories

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

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

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

12. Receivables and prepayments

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

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

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

13. Cash

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

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

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

14. Finance costs, net

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

15. Share capital

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

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

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

16. Cash Dividends

During the years ended 31 December 2005, 2004 and 2003 the Group declared and paid cash dividends of USD nil, USD 3.4 million (USD 0.09 per share) and USD 2.3 million (USD 0.06 per share), respectively. For dividend in kind we refer to Note 27, Transactions with related parties.

17. Earnings per share

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

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

18. Income tax

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

The taxable profits of Pyaterochka Holding N.V., a legal entity incorporated in the Netherlands, are taxed at a rate of 31.5% for the period ended 31 December 2005, and at a rate of 34.5 for the periods ending 31 December 2004 and 2003. The taxable profits of Speak Global Ltd., a legal entity incorporated in Cyprus, are taxed at 4.25% for the periods ended 31 December 2005, 2004 and 2003.

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

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

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

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

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

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

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

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

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

19. Long-term borrowings

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

Raiffeisenbank – In September 2003, the Group entered into two credit agreements with Raiffeisenbank for an aggregate amount of USD 10.0 million. In September and January 2005 and January 2004, the Group entered into five additional credit agreements with Raiffeisenbank for an aggregate amount of USD 7.5 million, USD 12.5 million and USD 9.9 million, respectively. Loans received in 2004 and 2003 bear interest of LIBOR+5.25% (average rate is 9.24%) and are being repaid in quarterly installments. These loans will be fully repaid by August 2008. For these loans the Group has already started to make quarterly repayments. Loans received in 2005 bear interest of LIBOR+4.85% (average rate is 8.19%) are repayable in quarterly installments starting in April 2006 and will be fully repaid by January 2010. As of 31 December 2005 and 31 December 2004, USD 36.7 million and USD 19.6 million, respectively, were outstanding under these agreements. Property, plant and equipment with a book value of USD 35.3 million and USD 19.4 million were pledged to collaterise the outstanding balances as of 31 December 2005 and 31 December 2004, respectively.

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

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

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

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

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

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

Bonds – On 31 March 2005, the issuance of rouble-denominated bearer bonds of Pyaterochka Finance LLC, a 99.99 per cent owned subsidiary of Agrotorg LLC, was registered with the Federal Service for Financial Markets of the Russian Federation. The aggregate nominal value of the bonds amounted to RUB 1,500 million (equivalent of USD 52.1 million as of 31 December 2005). The bonds which were placed by open subscription conducted on the Moscow Interbank Currency Exchange ("the MICEX") on 18 May 2005 have a maturity of five years from the date of placement. The rate of a coupon payable on the bonds was determined through an auction conducted on MICEX (11.45%). Interest is payable every six months. The proceeds of the bond issue were used to finance the capital expenditures associated with the opening of new stores by the Group, as well as to refinance the Group's short-term borrowings.

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

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

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

20. Obligations under finance leases

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

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

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

21. Short-term loans and overdrafts

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

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

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

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

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

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

22. Trade accounts payable

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

23. Other payables and accrued expenses

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

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

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

24. Acquisition of subsidiaries

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

In December 2005 the Group acquired 100 per cent ownership of the issued share capital of the Ekaterinburg franchisee comprising the issued share capital of three legal entities, LLC Ural Retail, LLC

Legion and LLC Economtorg, for a cash consideration of USD 14.5 million. These transactions have been accounted for by the purchase method of accounting.

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

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

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

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

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

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

25. Selling, general and administrative expenses

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

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

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

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

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

Note to the personnel expenses

	2005	2004	2003
	mln USD	mln USD	mln USD
Salaries and wages	86.4	57.6	40.5
Social charges	2.2	1.4	0.3
Pension costs	6.8	6.5	1.8
Total personnel costs	95.4	65.5	42.6

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

	2005	2004	2003
	thousand USD	thousand USD	thousand USD
Vysotsky	174	0	0
Li	151	0	0
Rieff	31	7	6
Beliakov			
Total, thousand USD	325	-	-

The Supervisory Board of Directors received a remuneration of:

	2005	2004	2003
	thousand USD	thousand USD	thousand USD
Girda	349	222	2,361
Franus	349	240	2,359
Noble	24		
Rogachev	349	351	2,412
Vidiaev	349	347	2,467
	1,420	1,160	9,599

Employee stock incentive plan

The Pyaterochka Group has established a stock incentive plan for certain of its executives and key employees, including members of the Management board and executive officers (collectively, Eligible Participants). Under the terms of the plan, Eligible Participants may be granted options to acquire the economic benefit in, or receive the cash value of, a certain number of GDRs. The grant of any such option to any Eligible Participant, and the number of GDRs subject to such option, will be subject to certain performance criteria specific to such Eligible Participant being met, including, inter alia, the Pyaterochka Group achieving certain EBITDA, store roll-out and cost containment or reduction targets. The Company may vary or waive such performance criteria. Any option granted may not be exercised earlier than on the third anniversary of its grant. The exercise price of any such option will be equal to the aggregate nominal value of the shares represented by the GDRs subject to such option. The Pyaterochka Group will bear the costs associated with the stock incentive plan, either by purchasing a requisite number of the GDRs on the market or, at the option of the Pyaterochka Group, procuring that a sufficient number of shares are issued by Pyaterochka and deposited with the Depositary. Options were granted under the stock incentive plan in August and December 2005. The costs associated with the plan over its term will not exceed USD150 million.

The following members of the Board of Supervisory Directors and Management board hold options over GDRs.

The exercise price for each of the options is euro 0.25 per option.

Name	Number of options	Vesting date	Exercise period
Igor Vidiaev	766.136	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Igor Vidiaev	612.909	Between 16 May 2006 and 16 August 2009 (inclusive)	12 months commencing 16 August 2009
Igor Vidiaev	919.363	Between 16 May 2006 and 16 August 2010 (inclusive)	12 months commencing 16 August 2010
Tatiana Franus	766.136	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Angelika Li	191.534	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Angelika Li	191.534	Between 2 June 2007 and 2 December 2008 (inclusive)	12 months commencing 2 December 2008
Oleg Visotsky	383.068	Between 16 May 2006 and 16 August 2008 (inclusive)	12 months commencing 16 August 2008
Oleg Visotsky	383.068	Between 2 June 2007 and 2 December 2008 (inclusive)	12 months commencing 2 December 2008

26. Share-based payments

Share-based payments with cash alternatives

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

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

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

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

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

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

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

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

27. Transactions with related parties

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

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

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

Asset transfer and other transactions related to the Carousel group

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

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

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

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

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

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

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

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

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

Transactions with shareholders

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

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

Other related party transactions

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

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

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

LLC Macromir **–** In 2004, LLC Macromir performed capital construction for the Group. The amount of capital construction services purchased by the Group from Macromir was RUB 21.2 million (equivalent to USD 0.7 million). As of 31 December 2005 the balance of advances paid by the Group to LLC Macromir included in construction in progress amounted to RUB 5.2 million (equivalent to USD 0.2 million).

LLC LEK Estate Concern, LLC LEK Estate Firm **–** In 2003, the Group purchased a newly completed building from LEK Estate for a total consideration of USD 0.5 million.

Compensation of key management personnel

The remuneration of the Management board and Supervisory board directors of the Group for the years ended 31 December 2005, 2004 and 2003 was as follows:

	31.12.2005	31.12.2004	31.12.2003
	mln USD	mln USD	mln USD
Short-term benefits	1.7	1.2	9.6
Expenses recognised in respect of share-based payments	5.4	-	-

28. Risk management policies

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

Credit risk **–** The Group's credit risk is primarily attributed to its receivables and prepayments. The credit risk attributable to receivables and prepayments is limited due to a diversified base of counterparties. The Group does not have specific policies in place to mitigate these risks.

Interest rate risk **–** The Group is exposed to interest rate risk as a certain portion of its borrowings is at variable interest rate or short-term in nature, and the Group's refinancing activities are subject to risks associated with changes in the applicable interest rate. The Group does not hedge against these risks.

Foreign currency risk **–** The Group incurs foreign currency risk on borrowings that are denominated in currencies other than roubles. The Group does not hedge against its foreign currency risk exposure.

Fair values **–** The fair value of assets and liabilities are not materially different from the financial statement carrying values, unless specifically indicated elsewhere in these financial statements.

29. Capital commitments

Capital commitments represented by investment agreements for the construction of stores in St. Petersburg and Moscow as of 31 December 2005, 2004 and 2003 were as follows:

	31.12.2005	31.12.2004	31.12.2003
	mln USD	mln USD	mln USD
Commitments for the acquisition of property, plant and equipment	25.9	10.9	22.2

Purchase of LLC «Set Roznichnoi Torgovli» (SRT) **–** In December 2005 the Group reached an agreement in principle to acquire the largest franchisee of the Kopeika retail chain in Moscow and the Moscow region which operates 25 stores under "Kopeika" brand. The Group expects that the SRT stores will be rebranded as part of the Pyaterochka.

Following the acquisition, Pyaterochka increased the number of its stores in Moscow by 14, the Moscow region by 9, and 2 in the city of Vladimir. Of the 25 stores, 12 are owned and 13 are on long-term leases. The consideration paid is approximately USD 90.0 million including USD 7 million of assuming debt. In March 2005 the Group gained 100% control over SRT. Prepayment of USD 9.0 million was recorded as other long-term assets in these financial statements as at 31 December 2005 (Note 10).

30. Operating environment and contingencies

Operating and regulatory environment – Although in recent years there has been a general improvement in economic conditions in Russia, the Russian Federation continues to display certain characteristics of a transitional economy. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms. As a result laws and regulations affecting businesses continue to change rapidly.

Taxation – Tax laws in Russia are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged in the future. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years proceeding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Insurance – The insurance industry in the Russian Federation is in the process of development and many forms of insurance protection common in developed markets are not yet generally available in Russia. The Group does not fully cover many risks that a group of a similar size and nature operating in a more economically developed country would insure. Management understands that until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have an adverse effect on the Group's operations and financial position.

31. Post balance sheet events

Loans from related parties – In January 2006, the Group company Speak Global Ltd received loans from Technibel Worldwide Ltd for USD 8 million and Desside Holding Ltd for USD 12 million. The loans bore the interest of 8.5%. They matured and were fully repaid in February 2006. The directors of the Group hold interests in these companies and have the ability to exercise significant influence over their operations.

Loan from Raiffeisenbank – In February 2006, the Group entered into a credit line agreement with Raiffeisenbank for RUB 1,000 million to finance its working capital needs. The loan is unsecured, matures in February 2007 and bears interest of 1 month Mosprime plus 1.5% (approximately 5%).

Credit line from Promstroibank – In April 2006, the Group entered into a universal credit line agreement with Promstroibank for RUB 1,000 million to finance its working capital needs. The loan is unsecured, matures in 1.5 years and bears interest between 1.5% and 10.5%.

Sale of Economtorg – On 20 March 2006, LLC Economtorg, the legal entity acquired in Ekaterinburg, was sold to third parties for a nominal value. As a result of this transaction three stores being rented by Economtorg were closed.

Purchase of franchise operator in Chelyabinsk – In January 2006 it was announced that the Group signed an agreement to acquire a 26% equity stake in its franchise operator in the Chelyabinsk region of Russia, LLC Ural-Agro-Torg and LLC Leto, for a cash consideration of 43.5 million Russian roubles (approximately USD 1.5 million). LLC Ural-Agro-Torg and LLC Leto currently operates 29 stores in the Chelyabinsk region. This transaction is the first step towards the creation of a "cluster" of operations in the Ural region.

The Group also signed agreements outlining steps for further consolidation of its operations in the Chelyabinsk and Ekaterinburg regions. According to these agreements, by 1 June 2006, Pyaterochka and the majority owner of LLC Ural-Agro-Torg and LLC Leto will combine the operations of the Chelyabinsk and Ekaterinburg regions to form a new entity, Pyaterochka Ural.

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

Pyaterochka Ural expects to obtain control over the operations in the Chelyabinsk and Ekaterinburg regions in June 2006. Under the terms of the agreement, the existing Celyabinsk-based management team is to continue managing the day-to-day operations and the expansion plans of Pyaterochka Ural in the Chelyabinsk and Ekaterinburg regions.

Perekrestok transaction – In April 2006 the Group announced the merger of Pyaterochka and Perekrestok, a majority-owned subsidiary of Alfa Group, to create the clear leader in the fast growing Russian food retail market. Pyaterochka will acquire 100% of the equity in Perekrestok for USD 300 million to be paid in cash and USD 15.8 million of new shares of Pyaterochka. Simultaneously, Alfa Group together with certain members of Perekryostok management will acquire a controlling stake in Pyaterochka from the Company's current controlling shareholders.

The Group has also obtained a committed syndicated credit facility of up to USD 800 million to finance the acquisition and post acquisition capital requirements. As of the date of approval of these financial statements no amount has been drawn under this facility.

As part of the Perekrestok transaction, the controlling shareholders of the Group, who are also the beneficial owners of the Carousel group, have granted Pyaterochka a call option to acquire the entire share capital of Formata Holding B.V., the parent company of the Carousel group. The consideration for the exercise of the call option will be calculated by reference to the future financial performance of the Carousel group to be satisfied by a cash payment equal to 75 per cent of the total consideration and by issuing shares in Pyaterochka for the remaining part. The option is exercisable during the period beginning on 1 January 2008 and ending on 1 July 2008. The option agreement is conditional on completion of the Perekrestok transaction.

Disclosure for First Time Adoption

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) for the first time. The disclosures required by IFRS 1: First Time Adoption of International Financial Reporting Standards, explaining the effects of replacing generally accepted accounting practices (GAAP) previously followed by the Company with the newly adopted accounting practices prescribed by IFRS are set out in Note 32 following. Where appropriate, the prior year comparative financial statements are restated to reflect the IFRS effects.
The consolidated financial statements were previously prepared in compliance with the accounting principles as referred to in section 9 of Book 2 of the Netherlands Civil Code.
The change in accounting policies is treated retrospectively as of January 1, 2003, therefore, the financial statements as of 2003 have been presented in IFRS, the impact of the

		Consolidated IFRS	Consolidated Dutch GAAP	Effect of transition to IFRS
		mln USD	mln USD	mln USD
2004	Equity	166,0	117,9	48,1
	Net income	74,4	20,9	53,5
2003	Equity	105,3	92,9	12,4
	Net income	33,8	23,2	10,6

The difference between Dutch GAAP and IFRS is fully related to the fact that the company has consolidated Speak Global Ltd in 2005 and earlier using merger accounting according to the withdrawn IAS 22 Business combinations.

32. Explanation of transition to IFRS

This is the first year that the company has presented its consolidated financial statements under IFRS. The following disclosures are required in the year of transition. The last consolidated financial statements under Dutch GAAP were for the year ended 31 December 2004. The Company has decided to implement IFRS retrospectively as of 1 January 2003.

Reconciliation of equity and profit and loss at 1 January 2003 (date of transition to IFRS)

	Dutch GAAP	Effect of transition to IFRS	Consolidated IFRS
	2002		2002
	000 USD		000 USD
Property, plant and equipment	84,389	0	84,389
Long-term prepayments	5,449	0	5,449
Deffered tax assets	735	0	735
Inventories	21,670	0	21,670
Receivable and prepayments	17,142	18	17,160
Cash	5,007	603	5,610
Deferred tax liability	(7,784)	0	(7,784)
Long-term loans	(2,517)	0	(2,517)
Trade accounts payable	(47,862)	983	(46,879)
Short-term loans	(6,910)	0	(6,910)
Other payables and accrued expenses	(3,434)	(82)	(3,516)
Total equity	65,885	1,522	67,407
Revenue	491,651	1,589	493,240
Cost of sales	(409,838)	0	(409,838)
Gross profit	81,813	1,589	83,402
Selling, general and administrative expenses	(51,841)	763	(51,078)
Operating profit	29,972	2,352	32,324
Other expenses, net	0	(778)	(778)
Finance costs, net	(1,452)	0	(1,452)
Foreign currency exchange (loss)/gain		0	
Net monetary gain	3,110	21	3,131
Profit before income tax	31,630	1,595	33,225
Income tax	(4,413)	(75)	(4,488)
Net profit	27,217	1,520	28,737

Company's Balance Sheet for the Year Ended 31 December 2005

Pyaterochka Holding N.V.
Amsterdam

(before appropriation of net result)	notes	2005 USD 000	2004 USD 000	2003 USD 000
Assets				
Fixed assets				
Financial fixed assets	2	113,300	59,456	56,012
Current assets				
Prepayments		0	6	5
Cash and banks		61	602	425
		61	608	430
		113,361	60,064	56,442

See notes to the company's annual accounts.

	notes	2005 USD 000	2004 USD 000	2003 USD 000
Shareholders' equity and liabilities				
Shareholders' equity	3			
Share capital issued		45,497	52,253	47,981
Share premium		59,607	3,762	3,543
Retained earnings		5,312	(3,878)	(6,111)
Unappropriated (loss)/profit for the year		(5,760)	2,625	8,202
Currency translation reserve		1,062	2,872	370
	3	105,718	57,634	53,895
Long-term liabilities				
Tax liability Speak Global Ltd	5	5,000	0	0
Amounts due to related parties		0	2,300	2,300
Short-term liabilities				
Amounts due to related parties	4	2,334	43	20
Amounts due to shareholders		67	67	67
Accrued expenses		242	20	160
		2,643	130	247
		113,361	60,064	56,442

Company's Income Statement for the Year 2005

Pyaterochka Holding N.V.
Amsterdam

	notes	2005 USD 000	2004 USD 000	2003 USD 000
Financial income and expense:				
Dividend		499	2,907	8,409
Other financial income		0	72	60
Currency exchange rate differences		(8)	3	353
Interest expenses		(69)	(73)	(39)
		422	2,909	8,783
Other expenses:				
General and administrative expenses		(1,182)	(284)	(585)
Result before taxation		(760)	2,625	8,198
Income tax charge	5	(5,000)	-	4
Net (loss)/profit for the year		(5,760)	2,625	8,202

See notes to the financial statements.

Notes to the Company's Annual Accounts

Pyaterochka Holding N.V.
Amsterdam

1. Notes to the financial statements

Basis of preparation

The parent company financial statements of Pyaterochka Holding N.V. have been prepared in accordance with Part 9, of Book 2 of the Dutch Civil Code.

Accounting principles

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

In accordance with Section 362 paragraph 7, Book 2 of the Dutch Civil Code the annual report has been presented in USD as a result of the international bifurcation of the company.

As the company exploits Russian supermarkets, the functional currency of the company is the Russian Ruble as this is the currency of its primarily business environment and reflects the economic reality.

Financial fixed assets

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

On March 2, 2006 the parent companies have contributed Speak Global Ltd to the Company. In accordance with Dutch GAAP the net asset value of Speak Global Ltd at the moment of contribution is the deemed cost.

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

2. Financial fixed assets

Movements in the interest in group companies were as follows:

	2005 USD 000	2004 USD 000	2003 USD 000
Opening balance	59,456	56,012	44,495
Acquisitions/informal capital contribution	58,188	-	7,627
Other movements/foreign exchange differences	(4,344)	3,444	3,890
Closing balance	113,300	59,456	56,012

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.

3. Shareholders' equity

	Share capital issued	Share premium	Retained earnings	Unappropriated result for the year	Currency translation adjustments	Total
	USD 000	USD 000	USD 000	USD 000	USD 000	USD 000
Balance as of 1 January 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 dfference	4,873	3,555	(4,964)	-	145	3,609
Balance as of 1 January 2004	47,891	3,543	(6,111)	8,202	370	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	(3,652)	-	2,502	3,431
Balance as of 1 January 2005	52,253	3,762	(3,878)	2,625	2,872	57,634
Appropriation of net result	-		2,625	(2,625)		
Result for the year	-			(5,760)		(5,760)
Contribution of subsidiary	-	55,980				55,980
Foreign exchange difference	(6,756)	(135)	6,565		(1,810)	(2,136)
Balance as of 31 December 2005	45,497	59,607	5,312	(5,760)	1,062	105,718

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:

	2005	2004	2003
	USD 000	USD 000	USD 000
Equity per financial statements	105,718	57,634	53,895
Revaluation reserve re PP&E only in consolidated financial statements	25,476	26,425	24,894
Issuance of shares deducted from retained earnings in consolidated equity	-	-	(42,650)
Increase in share premium not in consolidated financial statements	(58,188)	-	-
Retained Earnings of Speak Global Ltd only in consolidated financial statements	51,642	-	-
Distribution to shareholders only in consolidated financial statements	(59,635)	(17,933)	-
Historical result of group	31,712	13,760	41,192
Dividends received from subsidiaries	(18)	(2,907)	(8,409)
Results from subsidiaries for the year	97,022	21,196	23,366
Currency exchange differences	2,064	1,807	623
IFRS – Dutch GAAP differences	-	66,019	12,357
Equity per consolidated financial statements	195,793	166,002	105,268

Share capital issued

On 29 December 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 31 December 2005, the issued and paid-up share capital amounts to EUR 38,306,785 and consists of 38,306,785 shares of EUR 1 each. This has been recalculated into USD with an exchange rate of 1 EUR = 1,1877 USD.

4. Short term liabilities

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

5. Income tax charge

On March 2, 2005 the ultimate parent companies of the Company have contributed Speak Global Ltd. to the company. The consequence of this contribution is that a tax liability of USD 5 million has been recorded on the balance sheet.

6. Other notes and signing of the financial statements

Employees

The Group had no employees during the year 2005, 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 Management Board and Supervisory Board. Boards remuneration is disclosed in the Note 25 of the Notes to the Consolidated Accounts.

Signing of the financial statements

Amsterdam, 24 May 2006

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

Additional Information

Statutory Profit Appropriation

Pyaterochka Holding N.V.
Amsterdam

In Article 28 of the company statutory regulations the following has been stated concerning the appropriation of result:

On proposal of the Supervisory Board, the General Meeting shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

Auditors' Report

Pyaterochka Holding N.V.
Amsterdam

Date
May 24, 2006

Introduction

We have audited the financial statements of Pyaterochka Holding N.V., Amsterdam, for the year 2005 as set out on pages 41 to 84. These financial statements consist of the consolidated financial statements and the company financial statements. 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 with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result and the cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore, we have established to the extent of our competence that the annual report is consistent with the consolidated financial statements.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result for the year then ended in accordance with accounting principles as generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore, we have established to the extent of our competence that the annual report is consistent with the company financial statements.

Deloitte Accountants B.V.
R.M.A. Zuiverloon

Subsequent Events

Reference is made to the subsequent events as disclosed in the consolidated financial statement.

Contact Information

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Investor Relations

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