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PYATEROCHKA HOLDING N.V.

RESULTS FOR FY 2005 AND Q1 2006 HIGHLIGHTS

OUTSTANDING SALES GROWTH ENHANCED BY IMPROVED MARGINS

Pyaterochka Holding N.V. ("Pyaterochka" or "the Company") today announces its consolidated financial results for the 12 months ending 31 December 2005 in accordance with IFRS.

2005 Financial Highlights

» Gross banner sales totaled USD 2,084 million, up 31% from FY 2004

» Net sales reached USD 1,359 million, up 23% from FY 2004

- Sales from St. Petersburg area stores reached USD 708 million in 2005, up 22% from FY 2004
- Sales from Moscow area stores reached USD 644 million in 2005, up 24% from FY 2004
- Net franchise revenues reached USD 7 million in 2005, up 53% from FY 2004
- LFL 12 month sales of -1% for the Group in FY 2005 (+5% Moscow 12M LFL, -6% St. Petersburg 12M LFL)

» Gross profit up 38% to USD 339 million; gross margin of 24.9% vs. 22.2% in FY 2004

» EBITDA up 46% to USD 163 million; EBITDA margin of 12.0% vs. 10.1% in FY 2004

» Net Income up 23% to USD 91 million

» Full Year 2006 expectations:

- 130 new company-managed Pyaterochka stores to be opened in 2006
- 2006 LFL sales of +3% to +4% expected in Moscow area and -2% to -3% expected in St. Petersburg

2005 Operating Highlights

» Total number of stores operating under Pyaterochka's brand reached 751 on 31 December 2005, up 70% since the beginning of 2005.

» Record 91 new stores opened in core regions of Moscow (35) and St. Petersburg (56) in 2005, for a total of 326 stores operating in Moscow (159) and St. Petersburg (167) as of 31 December 2005.

» Continued strong growth of franchisees network reaching 404 stores as of 31 December (excluding Yekaterinburg), up 95% from 207 stores from 1 January 2005 with 197 new stores opened by Pyaterochka's franchisees in 2005. Pyaterochka had master franchise agreements in 18 Russian regions, Ukraine and Kazakhstan as of 31 December 2005.

» Net selling space reached 100,174 sqm (+22%) in Moscow and 96,167 sqm (+53%) in St. Petersburg as of 31 December 2005.

» Pyaterochka's stores served over 222 million customers in 2005, including over 104 million customers in Moscow and over 118 million customers in St. Petersburg.

» Pyaterochka's average check reached $6.10 in 2005 (+9% vs. 2004 check of $5.60), with an average check of $6.20 in Moscow and $6.00 in St. Petersburg.

» Gross margin improvement of 270 bps as a result of improved purchasing terms.

Commenting, Mr. Vysotsky, the CEO of Pyaterochka Holding, said:

“Our final figures for 2005 represent record sales and income for the company and we are pleased to have achieved a significant increase in our margins. Initial indications for 2006 from the first quarter results show solid performance in like-for-like sales. We are well positioned for excellent growth this year, based on our greater scale, our enhanced operating efficiencies and the stabilization in St. Petersburg, following the successful implementation of the store improvement initiatives.”

Q1 2006 Highlights

Net Sales

Pyaterochka’s net sales reached USD 439 million in Q1 2006, up 41% vs. Q1 2005 sales of USD 312 million.

Like-for-Like Sales

Pyaterochka experienced LFL sales for the group of +7% in Q1 2006, comprised of a +15% LFL sales in Moscow and -1% LFL sales in St. Petersburg.

Group LFL sales of +7% in Q1 2006 were composed of a 10% increase in the average basket and a 3% decrease in traffic. Moscow LFL sales of +15% were composed of a 12% increase in the average basket and a 3% increase in traffic during Q1 2006. In St. Petersburg, LFL sales of -1% were composed of an 8% increase in the average basket and an 8% decrease in traffic during Q1 2006.

Store Openings

During Q1 2006, Pyaterochka opened 26 new stores in its core markets, with 18 new stores opened in Moscow (including 13 stores acquired in December 2005 from a franchisee of Kopeika), and 8 new stores opened in St. Petersburg. In addition, 19 stores in Yekaterinburg have been company-managed since 1 January 2006.

As of 31 March 2006, Pyaterochka operated a total of 371 stores in its core markets of Moscow (177 stores), St. Petersburg (175 stores) and Yekaterinburg (19).

Pyaterochka’s franchisees added 35 new stores during Q1 2006, and operated a total of 439 stores across 15 regions of Russia, Ukraine and Kazakhstan as of 31 March 2006. Pyaterochka currently has master franchise agreements in 20 regions of Russia, Ukraine and Kazakhstan.

Pyaterochka operated 810 stores under its brand as of 31 March 2006.

- End -

Notes to Editors:

Pyaterochka is one of the largest grocery retailers in Russia in terms of sales, with a chain of 371 company-managed stores located in the Moscow, St. Petersburg and Yekaterinburg areas as of 31 March 2006.

2005 net sales reached USD 1,359 million, with gross banner sales in 2005 of over USD 2 billion. Q1 2006 net sales were USD 439 million.

In addition to the company's own stores, franchisees operated 439 Pyaterochka branded stores in 15 regions of Russia, Ukraine and Kazakhstan as of 31 March 2006. Pyaterochka currently has master franchise agreements in 20 regions of Russia, Ukraine and Kazakhstan.

Pyaterochka's stores are conveniently located "soft" discount stores, open seven days a week from 9am to 10pm or 11pm, offering a product range of up to 5,000 items covering the day-to-day needs of its customers.

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Pyaterochka Holding N.V.

Independent Auditors' Report

Consolidated Financial Statements
Years Ended 31 December 2005, 2004 and 2003

PYATEROCHKA HOLDING N.V.

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Pyaterochka Holding N.V. and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group at 31 December 2005, 2004 and 2003, and the consolidated results of its operations, cash flows and changes in shareholders' equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2005, 2004 and 2003 were approved on 14 April 2006 by O.Vysotsky, Chief Executive Officer and A. Li, Chief Financial Officer.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pyaterochka Holding N.V.:

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

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

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

14 April 2006
Deloitte & Touche

PYATEROCHKA HOLDING N.V.

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

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

The notes on pages 7 to 30 form an integral part of these consolidated financial statements.

PYATEROCHKA HOLDING N.V.

CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER 2005, 2004 AND 2003

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

The notes on pages 7 to 30 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	Share capital 'mln USD	Share premium 'mln USD	Retained earnings 'mln USD	Total shareholders' equity 'mln USD
Balance at 1 January 2003		0.4	5.4	61.6	67.4
Share issue		42.6	-	(42.6)	-
Dividends paid	16	-	-	(2.3)	(2.3)
Net profit		-	-	33.8	33.8
Translation adjustment		-	0.5	5.9	6.4
Balance at 31 December 2003		43.0	5.9	56.4	105.3
Distribution to shareholders		-	-	(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 7 to 30 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
Amortization of long-term prepayments		0.1	0.1	0.2
Loss on disposal of property, plant and equipment		2.3	0.5	0.3
Loss on disposal of long-term prepayments		0.1	-	
Change in provision for doubtful receivables		3.0	0.8	0.5
Change in provision for inventory losses		0.2	0.4	(0.2)
Share-based payments expense		5.4	-	-
Interest expense		13.3	4.5	1.3
Operating cash flow before movements in working capital		170.3	114.7	52.8
Decrease/(increase) in receivables and prepayments		5.8	(28.3)	(15.8)
Increase in inventories		(14.2)	(3.7)	(14.6)
Increase in trade accounts payable		49.9	45.6	31.4
(Decrease)/increase in other payables and accrued expenses		(5.5)	0.9	25.7
Cash provided by operations		206.3	129.2	79.5
Income tax paid		(23.0)	(16.6)	(7.2)
Interest paid		(11.9)	(4.8)	(0.9)
Net cash provided by operating activities		171.4	107.8	71.4
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment		(165.2)	(78.7)	(63.3)
Construction in progress		(33.1)	(22.4)	(5.8)
Financing provided to related party		-	(31.6)	-
Proceeds on disposal of property, plant and equipment		2.8	1.4	1.2
Long-term prepayments		(3.4)	(0.3)	(3.1)
Proceeds on disposal of long-term prepayments		1.6	-	-
Acquisition of subsidiaries	24	(74.6)	-	-
Acquisition of other long-term assets		(9.0)	-	-
Net cash used in investing activities		(280.9)	(131.6)	(71.0)
FINANCING ACTIVITIES:				
Proceeds from borrowings		206.8	68.5	33.6
Repayments of borrowings		(40.3)	(21.5)	(27.4)
Net (decrease)/increase in bank overdrafts		(5.4)	(0.6)	4.7
Repayment of obligations under finance leases		(1.2)	(1.6)	(0.7)
Dividends paid		-	(3.4)	(2.3)
Distributions to shareholders		-	(17.9)	-
Net cash from financing activities		159.9	23.5	7.9
EFFECT OF FOREIGN EXCHANGE RATES ON CASH		(8.6)	0.7	0.4
NET INCREASE IN CASH		41.8	0.4	8.7
CASH, beginning of year		14.7	14.3	5.6
CASH, end of year		56.5	14.7	14.3

The notes on pages 7 to 30 form an integral part of these consolidated financial statements.

GENERAL INFORMATION

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

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

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

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

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

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

PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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 recognized for share-based payments amounted to USD 5.4 million.

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

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

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

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

- IFRS 6 "Exploration for and Evaluation of Mineral Resources"
- IFRS 7 "Financial Instruments: Disclosures"
- IAS 39 Amendments: "The Fair Value Option", "Hedges of Forecast Intragroup Transactions", "Financial Guarantee Contracts"
- IAS 19 (revised) "Employee Benefits"
- 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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 recognized in the consolidated income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

Borrowing costs – Before 2005 the Group capitalized the borrowing costs that 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 recognized as an expense in the period in which they are incurred. Management believes that this treatment will result in a less judgmental treatment and a more transparent presentation of the Group's finance costs. The impact of the application of the new policy was not material and thus no adjustments were made in respect of the prior years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, which are described in Note 4, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (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.

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).

REVENUE

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

	Land and buildings 'mln USD	Refrigerating equipment 'mln USD	Vehicles 'mln USD	Other equipment 'mln USD	CIP 'mln USD	Total 'mln USD
Cost						
At 1 January 2003	43.2	8.9	1.4	10.0	25.0	88.5
Additions	-	-	-	-	69.2	69.2
Disposals	-	(0.8)	(0.1)	(0.9)	-	(1.8)
Transfers	43.5	8.1	0.7	13.1	(65.4)	-
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).

GOODWILL

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

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

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

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).

INVENTORIES

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

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

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

RECEIVABLES AND PREPAYMENTS

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

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

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

CASH

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

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

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

FINANCE COSTS, NET

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

SHARE CAPITAL

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

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

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

DIVIDENDS

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

Earnings per share

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

	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
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

INCOME TAX

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

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

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

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

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

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

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

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

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

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

	2005		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%**

LONG-TERM BORROWINGS

	Currency	Annual interest rate (actual at 31 December 2005)	31.12.2005 'mln USD	31.12.2004 'mln USD	31.12.2003 'mln USD
Raiffeisenbank	USD	9.24% / 8.19%	36.7	19.6	10.0
Sberbank	RUB	11.6%	-	8.3	-
Sberbank	RUB	14.0%-15.0%	15.8	8.6	1.6
Sberbank	RUB	16%	-	1.4	0.8
Sberbank	RUB	11.5%-12.5%	-	4.0	-
Sberbank	RUB	10.5%	17.9	-	-
Bonds 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 collaterize 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 collaterized by pledges of buildings with a book value of USD 7.8 million and USD 9.9 million, respectively. As of 31 December 2005 and 2004 the loans were also secured by pledges of merchandise with a book value of USD 16.0 million and USD 15.2 million, respectively.

Bonds – On 31 March 2005, the issuance of Ruble-denominated bearer bonds of Pyaterochka Finance LLC, a 99.99 per cent owned subsidiary of Agrotorg LLC, was registered with the Federal Service for Financial Markets of the Russian Federation. The aggregate nominal value of the bonds amounted to RUB 1,500 million (equivalent of USD 52.1 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 Rubles (equivalent of USD 104.2 million as at 31 December 2005) are 5-year bonds bearing a semi-annual coupon. The coupon rates are fixed at 9.3% per annum to maturity.

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

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

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

SHORT-TERM LOANS AND OVERDRAFTS

	Currency	**Annual interest rate (Actual at 31 December 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 collaterized by a pledge of merchandise with a book value of USD 23.5 million and property, plant and equipment with a book value of USD 9.0 million as of 31 December 2004. During 2005 the loans were repaid in full.

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

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

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

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

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.

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.

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

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

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

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

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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

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

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

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

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

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.

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

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

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

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

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

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

Loans obtained from shareholder

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.

Other related party transactions

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

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

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

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

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

Compensation of key management personnel

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

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

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 rubles. The Group does not hedge against its foreign currency risk exposure.

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

CAPITAL COMMITMENTS

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

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

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

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

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.

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 have been matured and 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, for a cash consideration of 43.5 million Russian rubles (approximately USD 1.5 million). LLC Ural-Agro-Torg currently operates 29 stores in the Chelyabinsk region. This transaction is the first step towards the creation of a "cluster" of operations in the Ural region.

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

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

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

Perekrestok transaction – In April 2006 the Group announced the merger of Pyaterochka and Perekrestok, a majority-owned subsidiary of Alfa Group, 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.

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.