Pyaterochka Holding N.V.
(Previously trading as Perekrestok Holdings Ltd.)

International Financial Reporting Standards Consolidated Interim Financial Statements and Auditors' Report

30 June 2006

Contents

DIRECTORS' RESPONSIBILITY STATEMENT

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

Management is responsible for the preparation of the consolidated interim financial statements that present fairly the financial position of the Group at 30 June 2006, and the results of its operations, cash flows and changes in shareholders' equity for the period of six months then ended, in compliance with International Financial Reporting Standards as adopted by the European Union.

In preparing the consolidated interim 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 as adopted by the European Union and IFRS as issued by the International Accounting Standards Board have been followed, subject to any material departures disclosed and explained in the consolidated interim financial statements; and
- Preparing the consolidated interim 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 interim financial statements of the Group comply with IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board;
- 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 interim financial statements for the period of six months ended 30 June 2006 were approved on 19 October 2006 by:

Lev Khasis
Chief Executive Officer

Vitaliy Podolskiy
Chief Financial Officer

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To the Management Board of
Pyaterochka Holding N.V.

Auditors' report

Introduction

In accordance with your assignment we have audited the accompanying consolidated balance sheet of Pyaterochka Holding N.V., Amsterdam, the Netherlands as of 30 June 2006 and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended. These consolidated interim financial statements (as set out on pages 2 to 35) are the responsibility of the Group's management. Our responsibility is to express an opinion on this consolidated interim 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.

Conclusion

In our opinion, the consolidated interim financial statements give a true and fair view of the financial position of the Group as at 30 June 2006, and of the results of its operations and its cash flows for the six months then ended in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting (IAS 34).

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 8 of the consolidated interim financial statements. The Group has only completed provisional accounting for goodwill associated with the acquisition of "Pyaterochka Holding N.V.". Adjustments to provisional values of assets and liabilities acquired will be recognised in the consolidated financial statements within twelve months of the acquisition date.

Amsterdam, 19 October 2006
PricewaterhouseCoopers Accountants N.V.

drs. P.C. Dams RA

(expressed in thousands of US Dollars, unless otherwise stated)

	Note	30 June 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	12	918,231	324,598
Intangible assets	13	2,873,459	43,193
Prepaid leases		14,259	4,218
Loan to related party	10	5,250	5,250
Deferred tax assets	28	2,537	-
Other long-term investment		389	-
		3,814,125	377,259
Current assets			
Inventories of goods for resale	14	118,090	68,576
Short-term financial investments		2,946	12
Trade and other accounts receivable	15	76,234	24,528
VAT and other taxes recoverable	16	95,048	59,084
Cash	11	48,658	30,067
		340,976	182,267
Total assets		**4,155,101**	**559,526**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	20	72,139	30
Share premium		2,976,681	122,152
Cumulative translation reserve		15,621	5,724
(Accumulated deficit) / Retained earnings		(224,385)	54,080
Total equity		**2,840,056**	**181,986**
Non-current liabilities			
Long-term borrowings	18	681,466	144,089
Liability for share-based payments	27	46,141	-
Long-term finance lease payable	19	3,509	-
Deferred tax liabilities	28	24,906	16,674
Long-term deferred revenue		3,838	-
Other non-current liabilities		155	146
		760,015	160,909
Current liabilities			
Trade accounts payable		313,535	119,634
Short-term borrowings	18	136,685	52,602
Short-term finance lease payables	19	2,053	-
Interest accrued		4,752	702
Payable to related parties	10	502	2,758
Current income tax payable		6,620	5,018
Other liabilities	17	90,883	35,917
		555,030	216,631
Total liabilities		**1,315,045**	**377,540**
Total equity and liabilities		**4,155,101**	**559,526**

Lev Khasis
Chief Executive Officer
19 October 2006

Vitaliy Podolskiy
Chief Financial Officer
19 October 2006

(expressed in thousands of US Dollars, unless otherwise stated)

	Note	30 June 2006	30 June 2005
Revenue	22	898,783	464,021
Cost of goods sold		(652,026)	(346,795)
Gross profit		246,757	117,226
Operating expenses	23	(210,633)	(111,269)
Gain from disposal of property, plant and equipment	29	2,016	18,556
Lease/sublease and other income	24	14,509	8,374
Operating profit		52,649	32,887
Interest expense	25	(16,025)	(5,338)
Interest income	25	192	97
Net foreign exchange loss		(452)	(3,050)
Profit before tax		36,364	24,596
Income tax expense	28	(14,829)	(5,773)
Profit for the period		21,535	18,823
Attributable to:			
Equity holders of the parent		21,535	18,763
Minority interest		-	60
Profit for the period		21,535	18,823
Earnings per share for profit attributable to the equity holders of the Parent (expressed in USD per share)	21		
basic		0.86	1.19
diluted		0.85	1.19

Lev Khasis
Chief Executive Officer
19 October 2006

Vitaliy Podolskiy
Chief Financial Officer
19 October 2006

(expressed in thousands of US Dollars, unless otherwise stated)

	Note	30 June 2006	30 June 2005
Profit before tax		**36,364**	**24,596**
Adjustments for:			
Depreciation and amortisation	23	19,169	11,328
Gain on disposal of property, plant and equipment	29	(2,016)	(18,556)
Loss on disposal of intangible assets		38	-
Inventory shrinkage		10,715	4,695
Finance costs, net	25	15,833	5,241
Impairment of trade and other accounts receivable	23	3,396	1,036
Loss on disposal of subsidiaries	9	110	-
Share-based payments expense	27	3,853	-
Amortisation of deferred expenses		565	-
Net unrealised foreign exchange loss		2,772	3,050
Net cash from operating activities before changes in working capital		**90,799**	**31,390**
Decrease / (increase) in VAT recoverable		6,385	(16,956)
Increase in trade and other accounts receivable		(30,081)	(3,805)
Increase in inventories		(1,479)	(918)
Decrease in trade accounts payable		(18,758)	(11,559)
Increase / (decrease) in other accounts payable and deferred revenue		16,333	(2,967)
Translation effect on working capital		5,389	(1,274)
Net cash generated from operations		**68,588**	**(6,089)**
Interest paid		(13,891)	(3,592)
Interest received		141	97
Income tax paid		(15,278)	(1,480)
Net cash from operating activities		**39,560**	**(11,064)**
Cash flows used in investing activities			
Purchase of property, plant and equipment	12	(73,936)	(85,325)
Non-current prepaid lease		(6,338)	(357)
Acquisition of subsidiaries	8	327,504	(8,750)
Acquisition of other long-term investments		(389)	-
Proceeds from sale of property, plant and equipment		2,102	2,500
Long-term loan to related party originated	10	-	(5,250)
Acquisition of investments available for sale		(2,807)	(1,211)
Proceeds from sale of investments available for sale		16	1,148
Purchase of intangible assets	13	(53)	(246)
Net cash used in investing activities		**246,099**	**(97,491)**
Cash flows from financing activities			
Proceeds from short-term loans		92,629	224,163
Repayment of short-term loans		(48,889)	(135,690)
Proceeds from long-term loans		154,879	-
Repayment of long-term loans		(165,309)	(15,000)
Distribution to shareholders	8	(300,000)	-
Principal payments on finance lease obligations		(420)	-
Net cash from financing activities		**(267,110)**	**73,473**
Effect of exchange rate changes on cash		42	(670)
Net increase / (decrease) in cash		**18,591**	**(35,752)**
Movements in cash			
Cash at the beginning of the year		30,067	52,618
Net increase / (decrease) in cash		18,591	(35,752)
Cash at the end of the year		**48,658**	**16,866**

Lev Khasis
Chief Executive Officer
19 October 2006

Vitaliy Podolskiy
Chief Financial Officer
19 October 2006

Pyaterochka Holding N.V.
Consolidated Interim Statement of Changes In Equity
for the six months ended 30 June 2006
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	Number of shares*	Share capital	Share premium	Cumulative translation reserve	Retained earnings / (Accumulated deficit)	Total shareholders' equity	Minority interest	Total
		Attributable to the shareholders of the Company							
Balance as at 1 January 2005		**38,306,785**	**30**	**122,152**	**12,148**	**24,948**	**159,278**	**1,862**	**161,140**
Translation movement					(5,767)		(5,767)	(53)	(5,820)
Profit for the period						18,763	18,763	60	18,823
Total recognised income for the period					(5,767)	18,763	12,996	7	13,003
Reduction of Minority interest as a result of the additional acquisition of Rathmine Holdings Limited shares								(626)	(626)
Balance as at 30 June 2005		**38,306,785**	**30**	**122,152**	**6,381**	**43,711**	**172,274**	**1,243**	**173,517**
Translation movement					(657)		(657)	53	(604)
Profit for the period						10,369	10,369	(173)	10,196
Total recognised income for the period					(657)	10,369	9,712	(120)	9,592
Reduction of Minority interest as a result of the additional acquisition of Rathmine Holdings Limited shares								(1,123)	(1,123)
Balance as at 31 December 2005		**38,306,785**	**30**	**122,152**	**5,724**	**54,080**	**181,986**	**-**	**181,986**
Translation movement					9,897		9,897		9,897
Profit for the period						21,535	21,535		21,535
Total recognised income for the period					9,897	21,535	31,432		31,432
Reverse acquisition	8	15,813,253	72,109	2,854,529			2,926,638		2,926,638
Distribution to shareholders	8					(300,000)	(300,000)		(300,000)
Balance as at 30 June 2006		**54,120,038**	**72,139**	**2,976,681**	**15,621**	**(224,385)**	**2,840,056**	**-**	**2,840,056**

Lev Khasis
Chief Executive Officer
19 October 2006

Vitaliy Podolskiy
Chief Financial Officer
19 October 2006

* The number of shares represents number of shares of Pyaterochka Holding N.V.

(expressed in thousands of US Dollars, unless otherwise stated)

1 PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

These consolidated interim financial statements are for the economic entity comprising Pyaterochka Holding N.V. (the "Company") and its subsidiaries, as set out in Note 7 (the "Group"), and are prepared as a continuation of the consolidated interim financial statements of Perekrestok Holdings Ltd. following the reverse acquisition (Note 2.1).

Pyaterochka Holding N.V. 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 a holding company for the group of companies that operate retail grocery stores. The Company's address and tax domicile is Rokin, 55, 1012KK, Amsterdam, the Netherlands.

On 18 May 2006, the Company acquired 100% of Perekrestok Holdings Ltd., the parent company for the group of companies that operate stores under the "Perekrestok" brand (Note 8). Although legally Pyaterochka Holding N.V. is regarded as the parent and Perekrestok Holdings Ltd. is regarded as the subsidiary, Perekrestok Holdings Ltd. is identified as the acquirer under IFRS 3 "Business Combinations" and the acquisition of Perekrestok Holdings Ltd. is accounted for as a reverse acquisition (Note 2.1).

The main activity of the Group is the development and operation of grocery retail stores. As of 30 June 2006 and 31 December 2005 the Group operated "Pyaterochka" and "Perekrestok" retail chains in major population centers in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Krasnodar, Kazan, Samara, Ekaterinburg; and Kiev, Ukraine with the following number of stores:

	30 June 2006	31 December 2005
Under "Pyaterochka" name		
Moscow	187	159
St. Petersburg	185	167
Ekaterinburg	19	21
	391	347
Under "Perekrestok" name		
Moscow	78	73
St. Petersburg	14	9
Ukraine	4	4
Other	37	34
	133	120
	524	**467**

In addition, as of 30 June 2006 the Group's franchisees operated 479 stores under "Pyaterochka" brand and 10 stores under "Perekrestok" brand (31 December 2005: 404 and 9, respectively) in Russia and neighbouring countries, Kazakhstan and Ukraine.

The Group is a member of the Alfa Group. As of 30 June 2006 the Company's principal shareholders are Luckyworth Ltd., Cesaro Ltd., Tayleforth N.V. and Marie-Carla Corporation N.V. owning 32.4%, 22.2%, 7.6%, 13.6% of total issued shares, respectively. As of 30 June 2006 45,388,971 (83,87%) of the Company's shares are listed on the London Stock Exchange in form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share. As of 30 June 2006 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTFH"), a company registered at Suite 2, 4 Irish Place, Gibraltar and is the parent entity of the Alfa Group. CTFH is under common control of Mr Fridman, Mr Khan and Mr Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTFH.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated interim financial statements for the six months ended 30 June 2006 have been prepared in accordance with, and comply with both: (a) International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting and (b) IAS 34, *Interim financial reporting*, as issued by the Internation Accounting Standards Board ("IASB"). Both Pyaterochka Holding N.V. and Perekrestok Holdings Ltd. previously prepared their financial statements under IFRS as issued by the IASB.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the European Union through the endorsement procedure established by the European Commission, with the exception of IFRIC 10, *Interim Financial Reporting and Impairment*, and certain provisions of IAS 39, *Financial Instruments: Recognition and Measurement*, on portfolio hedging. These financial statements comply with and it is the Group's intention, to the extent possible, to continue to comply with both IFRS and IAS 34, *Interim financial reporting*, as adopted by the European Union and as issued by the IASB since the Group is not affected by the hedging provisions and IFRIC 10.

These consolidated interim financial statements are issued under name of Pyaterochka Holding N.V. but represent a continuation of the consolidated interim financial statements of Perekrestok Holdings Ltd. Because these consolidated interim financial statements are continuation of the consolidated financial statements of Perekrestok Holdings Ltd.:

(a) the assets and liabilities of the legal subsidiary, i.e. Perekrestok Holdings Ltd., are recognised and measured at their pre-combination carrying amounts. The assets and liabilities of Pyaterochka Holding N.V. are recognised at their fair value at the date of acquisition;

(b) the consolidated retained earnings and other equity balances recognised in these consolidated interim financial statements are the retained earnings and other equity balances of Perekrestok Holdings Ltd. immediately before the business combination;

(c) the equity structure reflects the equity structure of Pyaterochka Holding N.V.; and

(d) comparative information presented in these consolidated interim financial statements is that of Perekrestok Holdings Ltd.

2.2 Accounting for the effects of inflation

Russian Federation was considered hyperinflationary prior to 1 January 2003. As a result, balances and transactions were restated for the changes in the general purchasing power of the Russian Rouble up to 31 December 2002 in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies").IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003, the Group does not apply the provisions of IAS 29 to assets acquired or revalued and liabilities incurred or assumed after that date. For other assets and liabilities, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated interim financial statements.

2.3 Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which acquirer obtains control of the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Minority interest

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

When the Group purchases a minority interest, the difference between its carrying amount and the amount paid to acquire it is recorded as goodwill. Gains or losses on disposals of minority interest, determined as the difference between its carrying amount and proceeds received or receivable, are recorded in the statement of income.

2.5 Foreign currency translation and transactions

(a) Functional and presentation currency

Functional currency. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's entities are the national currency of the Russian Federation, Russian Rouble ("RR") and the national currency of Ukraine, Ukrainian Hrynvia ("UAH"). The Group's presentation currency is the US Dollar ("USD"), which management believes is the most useful currency to adopt for users of these consolidated interim financial statements.

Translation from functional to presentation currency. The results and financial position of each Group entity (none of which have a functional currency that is the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity as a cumulative translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at the official exchange rate of the Central Bank of Russian Federation ("CBRF") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 30 June 2006, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 27.0789 (31 December 2005: USD 1 = RR 28.7825). Average rate for 6 months 2006 was USD 1 = RR 27.6799 (6 months 2005: USD 1 = RR 27.9595).

At 30 June 2006, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 5.0500 (31 December 2005: USD 1 = UAH 5.0500). Average rate for 6 months 2006 was USD 1 = UAH 5.0500 (6 months 2005: USD 1 = UAH 5.4134).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of its revenue earned from sales to external customers and whose internal and external revenue or result or assets are ten percent or more of all segments are reported separately.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the replaced parts are retired. Capitalised costs are depreciated over the remaining useful life of property, plant and equipment or part's estimated useful life whichever is sooner.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing the proceeds with the carrying amount are recognised in profit or loss.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

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

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on the acquisition of subsidiaries is presented as part of intangible assets in the consolidated balance sheet.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

(b) Lease rights

Lease rights represent rights for favourable operating leases. Lease rights are recognised initially at fair value and are amortised over the lease term of the respective lease contracts - on average over 10 years.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Intangible assets (continued)

(c) Other intangible assets (finite life)
Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives that are, on average, 10 years.

(d) Impairment of intangible assets
Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Goodwill and intangible assets not yet available for use are tested for impairment at least annually.

2.9 Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised in the income statement on a straight-line basis over the lease term.

2.10 Finance lease liabilities

Where the Group is a lessee in a lease, which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease.

2.11 Trade receivables

Trade receivables are initially recognised at their fair values and are subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

2.12 Inventories of goods for resale

Inventories at warehouses and retail outlets are stated at the lower of cost and net realisable value. Cost comprises direct costs of goods, transportation and handling costs. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

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. The provision is recorded as component of cost of goods sold.

2.13 Supplier bonuses

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

Bonuses received from suppliers are recorded as a reduction in the price paid for the products and are recognised in cost of goods sold as the related inventory is sold.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Cash

Cash comprises cash in hand and deposits held on call with banks which are carried at amortised cost.

2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.16 Value added tax

Value added tax related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project can not be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.17 Employee benefits

Wages, salaries, bonuses, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by the employees of the Group. The Group's entities contribute to the Russian Federation's state pension and social insurance funds in respect of its employees. These contributions are accrued when incurred. The Group's commitment ends with the payment of these contributions.

2.18 Share-based payments

The Group issues options to certain employees that 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 the fair value 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 behavioural 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 the 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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.20 Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligation under the contract and are carried at amortised cost using the effective interest method.

2.21 Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

2.22 Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

2.23 Income taxes

Income taxes payable are provided for on the basis of estimates of the tax liability for the year, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the balance sheet date. The Group provides against tax contingencies and the related interest and penalties where management can make a reliable estimate of the amount of the additional taxes that may be due. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and considered as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for such taxes, interest and penalties are calculated based on management's best estimate of the obligations, in accordance with the rates set out in the respective laws in effect at the balance sheet date (Notes 28 and 32).

2.24 Income and expense recognition

Income and expenses are recognised on an accrual basis as earned or incurred. Recognition of the principal types of income and expenses is as follows:

(a) Revenue

Revenue from the sale of goods through retail outlets is recognised at the point of sale. Revenue from franchisee fees is recognised based on contractual agreements over the term of the contracts. The up-front non-refundable franchisee fees received by the Group are deferred and recognised over the standard contractual term of 10 years. Revenue from advertising services is recognised based on contractual agreements. 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;

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Income and expense recognition (continued)

(b) Cost of goods sold

Cost of goods sold comprises the purchase price of goods sold reduced by the amount of suppliers' bonuses that relate to the goods sold;

(c) Interest income and expense

Interest income and expense are recognised on an effective yield basis;

(d) Operating expenses

Operating expenses are recognised on an accrual basis as incurred.

2.25 Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the earnings and the humber of shares for the effects of dilutive options.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated interim financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. At the interim balance sheet date on 30 June 2006, the Group determined that there are no indicators of impairment and therefore goodwill impairment test is not required. The Group has not completed provisional accounting for goodwill associated with the acquisition of Pyaterochka Holding N.V. (Note 8). Adjustments to the provisional values of assets and liabilities acquired will be recognised in the consolidated financial statements within 12 months of the acquisition date.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 32).

Market interest rate in related party transactions. In the normal course of business the Group enters into transactions with its related parties. Financial instruments are initially recognised based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is the pricing for similar types of transactions with unrelated parties and effective interest rate analyses (Note 10).

Useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 12). This estimate is based on projected product lifecycles and technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or become held for sale.

Fair value of lease rights. The Group's management determines the fair value of lease rights received for the disposal of a construction project in progress (Note 29). The assessment of the fair value of lease rights is based on the estimate of the market rates of the lease prepared by an independent valuer.

Accounting for incidental lease income. The Group leases out a portion of each store to provide auxiliary services to retail customers which are not provided by the Group (Note 24). The purpose of the leases is to satisfy the full scope of customers' needs rather than earn rental income. The Group accounts for the leased property in accordance with IAS 16 "Property, plant and equipment".

Accounting for rent expense. The Group leases retail outlets under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are classified as minimum lease payments (Note 32).

Supplier bonuses. The Group receives various types of allowances from suppliers in the form of slotting fees, volume discounts, and other forms of payment. In accounting for supplier bonuses received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and should be reported as part of the cost of sales.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Inventory provisions. The Group provides for estimated inventory shrinkage on the basis of a historical shrinkage as a percentage of sales (Note 14). This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results.

Provision for impairment of trade and other receivables. The Group determines an allowance for doubtful accounts receivable at the end of the reporting period (Note 15). In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectibility of the outstanding accounts receivable balances supplemented by the judgement of management to exclude the impact of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Acquisition of Pyaterochka Holding. On 18 May , 2006 the Group acquired Pyaterochka Holding N.V. (Note 8). Net assets acquired (Note 8) represent management's estimates of the fair value of the assets, liabilities and contingent liabilities of the acquired company. These provisional values represent management's best estimate based on the information available.

Share-based payments . The Group issues options to certain employees (Note 27). The fair value of the Group's liability to settle the awards in cash is determined using a Black-Scholes option pricing model. The inputs used in the model represent management's best estimate and are adjusted at each balance sheet date to reflect historical stock behaviour and changed in other observable market inputs.

Classification of VAT . Recovery of VAT depends on the registration of certain property, plant and equipment (Note 16).

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new standards and interpretations became effective for the Group from 1 January 2006. None of the new or amended standards or interpretations are relevant to the Group's operations and their adoption has not resulted in any significant changes to the Group's accounting policies. The standards and interpretations that became effective from 1 January 2006 are:

- Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006.
- Amendments to IAS 39, 'The fair value option', 'Cash flow hedge accounting of forecast intragroup transactions' and 'Financial guarantee contracts' (including related amendment to IFRS 4) effective for annual periods beginning on or after 1 January 2006.
- Amendment to IAS 21, 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006.
- IFRS 6, 'Exploration for and evaluation of mineral resources', including related subsequent amendment to IFRS 6 and to IFRS 1, effective for annual periods beginning on or after 1 January 2006.
- IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006.
- IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006.
- IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005.

(expressed in thousands of US Dollars, unless otherwise stated)

5 NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant for the Group;
- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management does not expect the interpretation to be relevant for the Group;
- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the Group's operations.
- IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. The Interpretation states that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This interpretation would not have an impact on these consolidated interim financial statements.
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. and a complementary Amendment to IAS 1 'Presentation of Financial Statements - Capital Disclosures', effective for annual periods beginning on or after 1 January 2007. The Group is currently evaluating the potential impact of the IFRS 7 and the amendment to IAS 1 on the financial statement presentation.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

6 SEGMENT REPORTING

The Group has one reportable business segment (retail trade) and one reportable geographical segment (Russia). Management has not presented segment information in a separate note as it believes such information has already been disclosed in Group's consolidated interim financial statements.

7 SUBSIDIARIES

Details of the Company's significant subsidiaries at 30 June 2006 are as follows:

Company	Country	Nature of operations	Ownership (%) 30 June 2006	Ownership (%) 31 December 2005
Speak Global Ltd.	Cyprus	Trade mark owner and property management	100	-
OOO Agroaspekt	Russia	Retailing	100	-
OOO Agroavto	Russia	Logistic operator	100	-
ZAO Remtransavto	Russia	Real estate	100	-
OOO Pyaterochka 2005	Russia	Real estate	100	-
OOO Set' Roznichnoy Torgovli	Russia	Real estate	100	-
OOO Telprice	Russia	Real estate	100	-
OOO Alliance Service	Russia	Real estate	100	-
OOO Agrotorg	Russia	Retailing	100	-
ZAO Agrostar	Russia	Logistic operator	100	-
ZAO Ceizer	Russia	Real estate	100	-
OOO Beta Estate	Russia	Real estate	100	-
OOO Pyaterochka Finance	Russia	Bonds issuer	100	-
OOO Elicon	Russia	Real estate	100	-
OOO Ural Retail	Russia	Retailing	100	-
OOO Legion	Russia	Real estate	100	-
Perekrestok Holdings Ltd.	Gibraltar	Holding Company	100	100
ZAO "TH Perekriostok"	Russia	Retailing	100	100
OOO "Perekriostok-2000"	Russia	Retailing	100	100
OOO "Discount-Invest"	Russia	Retailing	100	100
OOO "Retailtorg NK"	Russia	Real estate	100	100
Rathmine Holdings Ltd.	Cyprus	Holding Company	100	100
ZAO "Loximer"	Russia	Retailing	100	100
ZAT "Center SPAR Ukraine"	Ukraine	Retailing	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
OOO "Sladkaya Zhizn N.N."	Russia	Retailing	100	100

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITIONS OF SUBSIDIARIES

On 18 May 2006, the Group acquired Pyaterochka Holding N.V. The acquisition was structured as follows:

- On 12 April 2006 and on 18 May 2006 the shareholders of Perekrestok Holdings Ltd. acquired 2,467,917 and 12,068,115 ordinary voting shares of Pyaterochka Holding N.V., respectively, for cash consideration of USD 1,178,000.
- Pyaterochka Holding N.V. acquired 100% of the ordinary voting shares of Perekrestok Holdings Ltd. for 15,813,253 newly issued shares of Pyaterochka Holding N.V. and a cash consideration of USD 300,000.

On completion of the transaction, shareholders and other related parties of Perekrestok Holdings Ltd. obtained control over 56% of Pyaterochka Holding N.V. shares. Accordingly, the transation is accounted for as a reverse acquisition of Pyaterochka Holding N.V. by Perekrestok Holdings Ltd. (Note 2.1).

The cash consideration paid by Pyaterochka Holding N.V. for the shares of Perekrestok Holdings Ltd. is treated as a distribution of Perekrestok Holdings Ltd's retained earnings to its shareholders.

Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount, IFRS	Provisional fair values
Cash and cash equivalents	327,504	327,504
Inventory of goods for resale	58,750	58,750
Trade and other accounts receivable	73,514	73,514
Intangible assets (Note 13)	1,451	1,451
Property, plant and equipment	524,873	524,873
Long-term prepaid lease expenses	4,589	4,589
Deferred tax asset	1,633	1,633
Other assets	1,165	1,165
Short-term borrowings	(37,295)	(37,295)
Trade and other accounts payable	(257,307)	(257,307)
Long-term liability for share-based payments	(42,288)	(42,288)
Long-term borrowings	(544,034)	(544,034)
Non-current lease payable	(3,714)	(3,714)
Deferred tax liability	(9,110)	(9,110)
Net assets acquired	99,731	99,731
Goodwill (Note 13)		2,826,907
Total acquisition cost		2,926,638

The total acquisition cost is determined based on the published share price of the ordinary voting shares of Pyaterochka Holding N.V. on 12 April 2006, the exchange date, and represents market capitalisation of Pyaterochka Holding N.V. on that date.

Due to the close proximity of the transaction to the reporting date the fair value of assets and liabilities acquired are based on values determined provisionally. Adjustments to those provisional values will be recognised in the Group's consolidated financial statements within 12 months of the acquisition date. The Group engaged independent consultants to perform the purchase price allocation procedures for this acquisition but the process is not yet complete.

The provisional goodwill is primarily attributable to the profitability of the acquired business, and the synergies and combined cost savings that are expected to arise. The provisional goodwill also includes net identifiable assets that are expected to be recognised separately within 12 months of the acquisition date including, but not limited to, fair value uplift to property, plant and equipment, brands, favourable lease contracts and the fair value of contingent liabilities.

(expressed in thousands of US Dollars, unless otherwise stated)

8 ACQUISITIONS OF SUBSIDIARIES (continued)

The acquired business contributed revenue of USD 223,806 and net profit of USD 2,555 from the date of acquisition. If the acquisition had occurred on 1 January 2006, the Group's results for the six months ended 30 June 2006 would have been substantially as follows:

	Group, not including Pyaterochka Holding N.V. operations	Pyaterochka Holding N.V. operations	Total Group 6 months 2006
Revenue	674,977	905,869	1,580,846
Cost of goods sold	(487,723)	(670,961)	(1,158,684)
Gross profit	**187,254**	**234,908**	**422,162**
Operating expenses	(169,465)	(184,992)	(354,457)
Including:			
Staff costs	(72,630)	(69,163)	(141,793)
Operating lease expenses	(27,796)	(27,251)	(55,047)
Depreciation of property, plant and equipment	(14,967)	(14,720)	(29,687)
Utilities	(10,662)	(4,481)	(15,143)
Supplies and materials	(5,758)	(2,799)	(8,557)
Advertising	(13,176)	(2,789)	(15,965)
Consulting and information services	(3,486)	(1,554)	(5,040)
Security costs	(3,564)	(3,074)	(6,638)
Repair and maintenance costs	(3,053)	(5,128)	(8,181)
Taxes other than income tax	(3,466)	(2,854)	(6,320)
Share-based payments expense	-	(40,711)	(40,711)
Bank charges	(1,786)	(1,626)	(3,412)
Impairment of trade and other accounts receivable	(2,019)	(1,523)	(3,542)
Transportation costs	(1,677)	(3,347)	(5,024)
Amortisation of intangible assets	(396)	(26)	(422)
Other operating expenses	(5,029)	(3,946)	(8,975)
Gain from disposal of property, plant and equipment	2,102	1,748	3,850
Lease/sublease and other income	12,870	7,205	20,075
Operating profit	**32,761**	**58,869**	**91,630**
Finance costs, net	(8,431)	(18,559)	(26,990)
Net foreign exchange gain	2,314	858	3,172
Profit before tax	**26,644**	**41,168**	**67,812**
Income tax expense	(7,700)	(21,232)	(28,932)
Profit for the period	**18,944**	**19,936**	**38,880**
Attributable to:			
Equity holders of the parent	18,944	19,936	38,880
Minority interest	-	-	-
Profit for the period	**18,944**	**19,936**	**38,880**

(expressed in thousands of US Dollars, unless otherwise stated)

9 DISPOSAL OF SUBSIDIARIES

During the six months ended 30 June 2006 the Group disposed of its subsidiaries ZAO STD-Holding and ZAO Credo-estate:

	STD-Holding	Credo-estate	Total
Assets disposed			
Cash	13	-	13
Trade and other accounts receivable	45	6	51
Property, plant and equipment (Note 12)	1	-	1
Deferred tax asset	76	-	76
Liabilities disposed			
Other accounts payable	-	(29)	(29)
Net assets / (liabilities) disposed	135	(23)	112
Consideration received	(1)	(1)	(2)
Loss / (gain) on disposal of subsidiaries	134	(24)	110

10 RELATED PARTY TRANSACTIONS

The nature of the relationships for those entities with which the Group entered into significant transactions or had significant balances outstanding at 30 June 2006 are provided below.

Alfa Group

The following transactions were carried out with members of Alfa Group:

	Relationship	6 months 2006	6 months 2005
CTF Holdings Ltd.	Ultimate parent company		
Management services received		322	385
OAO "Alfa Bank"	Under common control		
Interest expense on loans received		83	880
Bank charges		187	18
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services rendered by VimpelCom to the Group		140	106
Commission for mobile phone payments processing rendered by the Group to VimpelCom		200	199
Golden Telecom	Under significant influence of CTF Holdings Ltd.		
Communication services received		224	435

(expressed in thousands of US Dollars, unless otherwise stated)

10 RELATED PARTY TRANSACTIONS (continued)

The consolidated financial statements include the following balances with members of the Alfa Group:

	30 June 2006	31 December 2005
Cash and cash equivalents		
OAO "Alfa Bank"	9,272	5,442
Short-term loans		
OAO "Alfa Bank"	37,500	62,951
Receivable from related party		
VimpelCom	130	35
Golden Telecom	659	451
Other accounts payable		
VimpelCom	412	1

Alfa-bank

The Group has an open credit line with Alfa-Bank. This credit line has maximum limit of USD 100 million and a floating interest rate. At 30 June 2006 the annual interest rate on this credit line was 7.1% p.a. (31 December 2005: 8.75%). At 30 June 2006 Group has utilised USD 37,500 of this credit line (31 December 2005: nil) (Note 18).

Other related parties

The following transactions were carried out with other related parties controlled by management of the Group:

Donette Investments Limited

As at 30 June 2006 the Group has a long-term loan issued to Donette Investments Limited in the amount of USD 5,250 with an interest rate of 10% p.a. (31 December 2005: USD 5,250). The loan was initially recognised at fair value and is subsequently carried at amortized cost. As of 30 June 2006 , the fair value of the loan approximates its carrying amount. The loan matures in 2014.

ZAO "Novye Roznichnye Technologii"

The following transactions were carried out with ZAO "Novye Roznichnye Technologii":

	6 months 2006	6 months 2005
Operating lease expenses	428	-

The consolidated interim financial statements include the following balances with ZAO "Novye Roznichnye Technologii":

	30 June 2006	31 December 2005
Accounts payable	90	531

OOO "Rusel" and OOO "Rusel M"

The following transactions were carried out with OOO "Rusel" and OOO "Rusel M":

	6 months 2006	6 months 2005
Outsourcing services provided by the Group	214	-
Rental income received by the Group	26	-

The consolidated interim financial statements include the following balances with OOO "Rusel" and OOO "Rusel M":

	30 June 2006	31 December 2005
Accounts receivable	185	-

OOO "Media 5" and OOO "Media 5M"

The following transactions were carried out with OOO "Media 5" and OOO "Media 5M":

	6 months 2006	6 months 2005
Advertising services provided by the Group	268	-

The consolidated interim financial statements include the following balances with OOO "Media 5" and OOO "Media 5M":

	30 June 2006	31 December 2005
Accounts receivable	1	-

(expressed in thousands of US Dollars, unless otherwise stated)

10 RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

Key management personnel compensation is disclosed in Note 26.

11 CASH

	30 June 2006	31 December 2005
Cash in hand – Roubles	3,127	2,557
Cash in hand – Ukrainian Hryvnia	67	115
Bank current account – Roubles	13,657	6,487
Bank current account – Ukrainian Hryvnia	158	138
Hard currency bank accounts – US Dollars	14,657	614
Cash in transit – Roubles	16,922	19,794
Cash in transit – Ukrainian Hryvnia	70	362
	48,658	**30,067**

The bank accounts represent current accounts with an effective interest rate of nil. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

(expressed in thousands of US Dollars, unless otherwise stated)

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2005	160,198	47,509	17,740	930	7,676	27,777	261,830
Additions	627	11,275	2,546	159	1,221	69,497	85,325
Transfers	12,635	17,367	138	-	60	(30,200)	-
Assets from acquisitions	2,902	838	456	85	510	5	4,796
Disposals	-	(107)	(111)	(13)	(17)	(6,023)	(6,271)
Translation movement	(4,691)	(1,974)	(571)	(30)	(247)	(892)	(8,405)
At 30 June 2005	171,671	74,908	20,198	1,131	9,203	60,164	337,275
Additions	5,362	6,262	3,390	867	602	46,095	62,578
Transfers	52,478	-	330	69	2,784	(55,661)	-
Disposals	(1,276)	(110)	(102)	(40)	(349)	-	(1,877)
Disposals of subsidiaries	-	'(33)	(59)	-	(12)	-	(104)
Translation movement	(3,073)	(652)	(235)	(25)	(206)	(433)	(4,624)
At 31 December 2005	225,162	80,375	23,522	2,002	12,022	50,165	393,248
Additions	9,717	3,214	1,426	160	2,158	57,261	73,936
Transfers	34,073	4,471	2,426	946	8,116	(50,032)	-
Assets from acquisitions (Note 8)	329,124	8,860	30,844	4,521	26,402	125,122	524,873
Disposals	(4,510)	(56)	(69)	(139)	(264)	(34)	(5,072)
Disposals of subsidiaries (Note 9)	-	(121)	-	-	(18)	-	(139)
Translation movement	13,876	4,770	1,382	111	770	2,338	23,247
At 30 June 2006	607,442	101,513	59,531	7,601	49,186	184,820	1,010,093
Accumulated depreciation:							
At 1 January 2005	(19,788)	(17,744)	(7,512)	(248)	(4,926)	-	(50,218)
Charge for the period	(3,357)	(4,385)	(1,749)	(68)	(1,398)	-	(10,957)
Disposals	-	96	-	11	6	-	113
Translation movement	734	656	289	11	201	-	1,891
At 30 June 2005	(22,411)	(21,377)	(8,972)	(294)	(6,117)	-	(59,171)
Charge for the period	(3,746)	(6,189)	(925)	(96)	(1,148)	-	(12,104)
Disposals	211	109	7	9	515	-	851
Disposals of subsidiaries	-	37	-	-	7	-	44
Translation movement	1,046	39	46	15	584	-	1,730
At 31 December 2005	(24,900)	(27,381)	(9,844)	(366)	(6,159)	-	(68,650)
Charge for the period	(6,111)	(7,212)	(2,678)	(424)	(2,344)	-	(18,769)
Disposals	252	5	69	66	62	-	454
Disposals of subsidiaries (Note 9)	-	120	-	-	18	-	138
Translation movement	(2,560)	(1,082)	(542)	(23)	(828)	-	(5,035)
At 30 June 2006	(33,319)	(35,550)	(12,995)	(747)	(9,251)	-	(91,862)
Net book value at 30 June 2006	**574,123**	**65,963**	**46,536**	**6,854**	**39,935**	**184,820**	**918,231**
Net book value at 31 December 2005	**200,262**	**52,994**	**13,678**	**1,636**	**5,863**	**50,165**	**324,598**
Net book value at 30 June 2005	**149,260**	**53,531**	**11,226**	**837**	**3,086**	**60,164**	**278,104**
Net book value at 1 January 2005	**140,410**	**29,765**	**10,228**	**682**	**2,750**	**27,777**	**211,612**

(expressed in thousands of US Dollars, unless otherwise stated)

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Construction in progress predominantly relates to development of stores constructed through the use of sub-contractors.

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 32). Certain land leases are prepaid for the 49 year term. Such prepayments are presented as non-current prepaid leases in the balance sheet and amounted to USD 14,259 (31 December 2005: USD 4,218).

The Group leases certain assets under finance lease (Note 19). At 30 June 2006 and 31 December 2005 the net book value of the property, plant and equipment held under finance lease arrangements was:

	30 June 2006	31 December 2005
Gross book value:		
Vehicles	9,637	-
Refrigerating equipment	1,870	-
	11,507	-
Accumulated depreciation:		
Vehicles	(375)	
Refrigerating equipment	(1,744)	-
	(2,119)	
Net book value of property, plant and equipment obtained under finance lease arrangements	**9,388**	-

Refer to Note 18 for property, plant and equipment pledged as collateral for borrowings.

(expressed in thousands of US Dollars, unless otherwise stated)

13 INTANGIBLE ASSETS

Intangible assets comprise the following:

	Goodwill	Software and other	Lease rights	Total
Cost:				
At 1 January 2005	15,619	1,148	-	16,767
Additions	-	246	15,864	16,110
Acquisition of subsidiaries	5,261	45	3,131	8,437
Translation movement	(699)	(50)	(107)	(856)
At 30 June 2005	20,181	1,389	18,888	40,458
Additions	-	-	-	-
Acquisition of subsidiaries	3,834	-	-	3,834
Disposals	-	(120)	-	(120)
Translation movement	138	11	250	399
At 31 December 2005	24,153	1,280	19,138	44,571
Additions	-	53	-	53
Acquisition of subsidiaries (Note 8)	2,826,907	1,451	-	2,828,358
Disposals	-	(38)	-	(38)
Translation movement	1,256	89	998	2,343
At 30 June 2006	2,852,316	2,835	20,136	2,875,287
Accumulated amortisation:				
At 1 January 2005	-	(472)	-	(472)
Charge for the period	-	(141)	(230)	(371)
Translation movement	-	29	6	35
At 30 June 2005	-	(584)	(224)	(808)
Charge for the period	-	(224)	(442)	(666)
Disposals	-	115	-	115
Translation movement	-	(11)	(8)	(19)
At 31 December 2005	-	(704)	(674)	(1,378)
Charge for the period	-	(134)	(266)	(400)
Translation movement	-	(51)	1	(50)
At 30 June 2006	-	(889)	(939)	(1,828)
Net book value at 30 June 2006	**2,852,316**	**1,946**	**19,197**	**2,873,459**
Net book value at 31 December 2005	**24,153**	**576**	**18,464**	**43,193**
Net book value at 30 June 2005	**20,181**	**805**	**18,664**	**39,650**
Net book value at 1 January 2005	**15,619**	**676**	**-**	**16,295**

14 INVENTORIES

Inventories as of 30 June 2006 and 31 December 2005 comprise the following:

	30 June 2006	31 December 2005
Goods held for resale	123,452	70,165
Less: provision for shrinkage	(5,362)	(1,589)
	118,090	**68,576**

Refer to Note 18 for goods pledged as collateral for borrowings.

The inventory shrinkage recognised as cost of goods sold in the consolidated interim income statement amounted to USD 10,715 (6 months 2005: USD 4,695).

(expressed in thousands of US Dollars, unless otherwise stated)

15 TRADE AND OTHER ACCOUNTS RECEIVABLE

	30 June 2006	31 December 2005
Trade accounts receivable	44,011	13,392
Advances made to trade suppliers	14,354	1,313
Other receivables and prepayments	21,564	10,892
Receivables from related parties (Note 10)	975	486
Provision for impairment of trade and other receivables	(4,670)	(1,555)
	76,234	**24,528**

16 VAT AND OTHER TAXES RECOVERABLE

	30 June 2006	31 December 2005
VAT recoverable	87,372	58,628
Income tax receivable	2,820	-
Other taxes receivable	4,856	456
	95,048	**59,084**

VAT recoverable related to property, plant and equipment of USD 51,065 (31 December 2005: USD 26,493) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. Timing of the VAT refund depends on the registration of certain property, plant and equipment, therefore there are risks that recovering the balance may take longer than twelve months.

17 OTHER LIABILITIES

	30 June 2006	31 December 2005
Taxes other than income tax	15,596	7,175
Provision for tax contingencies	11,791	8,000
Accrued salaries and bonuses	29,130	14,742
Payables to landlords	3,452	1,236
Deferred revenue	1,085	-
Other accounts payable and accruals	29,829	4,764
	90,883	**35,917**

The increase in provisions for tax contingencies is attributable to income taxes (Note 28) and Valued Added Taxes.

(expressed in thousands of US Dollars, unless otherwise stated)

18 BORROWINGS

	Currency	Interest rate, % p.a.	30 June 2006	31 December 2005
Short-term				
Current portion of Perekrestok's bonds ***	RR	8.84%	55,087	51,715
Alfa-bank	USD	7.10%	37,500	-
Sberbank	RR	9.50%	23,868	-
Raiffeisenbank overdraft	RR	6.00%	11,870	-
Sberbank overdraft	RR	7.50%	3,938	-
Current portion of Raiffeisenbank long-term loan	USD	9.00%	4,422	-
UralSib bank	USD	7.40%	-	750
Other	RR	-	-	137
			136,685	52,602
Long-term				
Syndicated loan *	USD	LIBOR + 2.25%/ 2.50%	450,249	-
Pyaterochka Finance's bonds – 1st issue ****	RR	11.50%	55,394	-
Pyaterochka Finance's bonds – 2nd issue ****	RR	9.30%	110,787	-
Perekrestok's bonds ***	RR	8.84%	55,087	51,715
Sberbank	RR	12.70% - 14.00%	38,923	-
Raiffeisenbank	USD	9.00%	19,455	-
Promyshlenno-stroitelniy bank	RR	10.50%	11,080	-
Syndicated loan (USD part) **	USD	LIBOR+3%	-	70,176
Syndicated loan (Euro part) **	Euro	EURLIBOR+3%	-	73,913
Less:				
Current portion of Perekrestok's bonds	RR	8.84%	(55,087)	(51,715)
Current portion of Raiffeisenbank long-term loan	USD	9.00%	(4,422)	-
			681,466	144,089
Total borrowings			**818,151**	**196,691**

* In May 2006 the Company raised USD 800,000 from a consortium of banks. The loan is divided into two tranches as follows:

- USD 450,000 for three years bearing interest at LIBOR plus 2.25%, repayable as follows: USD 112,000 on each of the 18th, 24th and 30th month of the loan and a final payment of USD 114,000 on maturity, i.e. in May 2009. Of the USD 450,000, USD 300,000 was paid to Perekrestok Holdings Limited shareholders (Note 8) and USD 150,000 was utilised to refinance existing debt of the Group.

- USD 350,000 bearing interest at LIBOR plus 2.5% and increasing to LIBOR plus 3% after one year and has a three-year maturity. This portion of the loan is being used to finance the future development of the combined Group. As at 30 June 2006 only USD 14,655 was utilised from second tranche.

The syndicated loan at 30 June 2006 is shown net of related transaction costs of USD 14,406 (31 December 2005: nil), which are amortised over the term of the loan using the effective interest method.

The Group has pledged as collateral for the syndicated loan 100% of voting shares in its subsidiaries, including Speak Global Ltd., OOO Agrotorg, OOO Agroaspect, Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO TH "Perekriostok", OOO Perekriostok-2000, ZAO Ceizer, ZAO Remtransavto.

(expressed in thousands of US Dollars, unless otherwise stated)

18 BORROWINGS (continued)

** The syndicated loan which was received by the Group in 2005 was refinanced by a new syndicated loan in May 2006.

*** In July 2005 the Group issued Russian Rouble denominated bonds in the amount of RR 1,500 million (USD 52,217 at the time of issue). The bonds have a maturity of 3 years. Coupon income is payable twice a year. The interest rate for the first and second coupon is 8.81% p.a. The interest rates on further coupon payments will be determined by management of the Group based on current market conditions and these interest rates were announced in July 2006. The bond holders have a right to redeem the bonds in July 2006 (Note 33), therefore all the bonds are classified as a current liability in these consolidated interim financial statements. The bond origination costs amounted to USD 400. They reduced the amount of bonds drawn down and are amortised over the estimated life of the bonds.

**** Pyaterochka Finance's rouble-denominated bonds, issue 1 and 2, were acquired by the Group in course of the acquisition (Note 8).

The first issue of bonds was done by Pyaterochka Finance in March 2005. The aggregate nominal value of the first issue amounted to RR 1,500 million (USD 55,394 as of 30 June 2006). The first issue of the bonds has a maturity of five years and bears interest at a fixed rate of 11.45% per annum. Interest is payable every six months.

The second issue of the bonds was done by Pyaterochka Finance in December 2005. The aggregate nominal value of the second issue amounted to RR 3,000 million (USD 110,787 as of 30 June 2006). The second issue of bonds has a maturity of five years and bears interest at a fixed rate of 9.3% per annum. Interest is payable every six months.

Under borrowing agreements with Raiffeisenbank, Sberbank and Promyshlenno-stroitelniy bank, the Group has pledged property, plant and equipment with net book value of USD 75,300 (31 December 2005: nil) and goods held for resale with carrying value of USD 23,156 (31 December 2005: nil).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings and was in compliance with those covenants. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

Loans received and repaid after reporting date are described in Note 33.

<u>**Maturity of non-current borrowings:**</u>

	30 June 2006	31 December 2005
1 to 3 years	480,952	144,089
3 to 5 years	178,357	-
More than 5 years	22,157	-
	681,466	**144,089**

19 OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain refrigerating equipment and vehicles under finance lease terms. The agreements expire in 2007-2009 and assume a 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 30 June 2006 varies from 9.0% to 11.0% per annum on USD agreements and from 24.0% to 31.0% per annum on RR agreements. Fair value of the finance lease liability as of 30 June 2006 approximates its carrying amount.

Lease obligations of the Group as of 30 June 2006 and 31 December 2005 consisted of the following:

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
Amounts payable :				
Within one year	3,227	-	2,053	-
In the second to fifth years inclusive	4,491	-	3,509	-
	7,718	-	5,562	-
Less: future finance charges	(2,156)	-	N/A	N/A
Present value of minimum lease payments	**5,562**	-	**5,562**	-

(expressed in thousands of US Dollars, unless otherwise stated)

20 SHARE CAPITAL

As described in Note 2.1 the equity structure of the Group represents the equity structure of Pyaterochka Holding N.V. As of 1 January 2006 the Company had 38, 306,785 ordinary shares issued and fully paid. The nominal par value of each ordinary share is EUR 1. The Company has only one class of ordinary shares. Because the acquisition (Note 8) is accounted for as a reverse acquisition of Pyaterochka Holding N.V. by Perekrestok Holdings Ltd., the amount of share capital is reported as USD 30 as at 31 December 2005 which reflects continuation of the financial statements of Perekrestok Holdings Ltd. (Note 2.1).

As part of the acquisition (Note 8) in April 2006 the Group has issued an additional 15,813,253 ordinary shares.

As of 30 June 2006 the Company has 190,000,000 authorised ordinary shares of which 54,120,038 ordinary shares are issued and fully paid. No dividends were paid or declared during the six months ended 30 June 2006 or the six months ended 30 June 2005 other than the USD 300,000 payment to former shareholders of Perekrestok Holdings Ltd. as disclosed in Note 8.

21 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

Earnings per share are calculated as follows:

	30 June 2006	30 June 2005
Earnings		
Earnings for the purposes of basic earnings per share	21,535	18,763
Effect of dilutive potential shares	-	-
Earnings for the purposes of diluted earnings per share	21,535	18,763
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	25,161,907	15,813,253
Effect of dilutive potential ordinary shares:		
Employee share options (Note 27)	127,420	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	25,289,327	15,813,253
Earnings per share attributable to the equity holders of the Group (expressed in USD per share):		
Basic	0.86	1.19
Diluted	0.85	1.19

(expressed in thousands of US Dollars, unless otherwise stated)

22 REVENUE

	6 months ended 30 June	
	2006	2005
Revenue from sale of goods	891,341	459,320
Revenue from advertising services	6,131	4,452
Revenue from franchise services	1,311	249
	898,783	464,021

23 OPERATING EXPENSES

	6 months ended 30 June	
	2006	2005
Staff costs (Note 26)	93,974	50,651
Operating lease expenses	34,586	18,604
Depreciation of property, plant and equipment (Note 12)	18,769	10,957
Advertising	13,959	4,438
Utilities	11,760	5,757
Other operating expenses	6,625	3,616
Supplies and materials	6,529	3,798
Taxes other than income tax	4,571	1,953
Security services	4,381	2,487
Repair and maintenance costs	4,004	1,991
Consulting and information services	3,102	3,326
Impairment of trade and other receivables	3,396	1,036
Transportation costs	2,438	1,155
Bank charges	2,139	1,129
Amortisation of intangible assets (Note 13)	400	371
	210,633	111,269

Operating lease expenses include USD 34,175 (6 months 2005: USD 18,190) of minimum lease payments and contingent rents of USD 411 (6 months 2005: USD 414).

24 OPERATING LEASES

The Group leases part of its retail space in stores to companies selling supplementary goods and services to customers. The lease arrangements are operating leases, the majority of which are short-term. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	30 June 2006	30 June 2005
Not later than 1 year	10,227	6,190
Later than 1 year and no later than 5 years	1,125	991
Later than 5 years	69	86
	11,421	7,267

The rental income from operating leases recognised in the income statement amounted to USD 12,844 (30 June 2005: USD 5,871). There were no contingent rents recognised in the income statement in 6 months 2006 (6 months 2005:nil).

(expressed in thousands of US Dollars, unless otherwise stated)

25 FINANCE INCOME AND COSTS

	6 months ended 30 June	
	2006	**2005**
Interest expense	16,025	5,338
Interest income	(192)	(97)
	15,833	**5,241**

26 STAFF COSTS

	6 months ended 30 June	
	2006	**2005**
Wages and salaries	78,218	44,740
Social security costs	11,903	5,911
Share-based payments expense	3,853	-
	93,974	**50,651**

Key executive management personnel
Key management personnel and members of the Supervisory Board of the Company receive compensation in the form of short-term employee benefits and share-based payments (Note 27). For the six months ended 30 June 2006 key management personnel and members of the Supervisory Board of the Company were entitled to total short-term compensation of USD 4,622 (6 months 2005: USD 2,588), including bonuses of USD 3,604 (6 months 2005: USD 1,568). The compensation is made up of annual remuneration and a performance bonus depending on operating results.

The breakdown of the average number of persons employed by the Group is as follows:

	6 months ended 30 June	
	2006	**2005**
Group, not including Pyaterochka Holding N.V. operations	15,364	12,073
Pyaterochka Holding N.V. operations	14,026	-

27 SHARE-BASED PAYMENTS

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. Each option equals of Global Depository Receipt. Options are exercisable at a fixed price equal to EUR 0.25 per GDR (approximately USD 0.30). The vesting period varies from 3 to 5 years. The Management Board or the supervisory board (as the case may be) has attached vesting conditions (performance criteria) to 1,436,505 of the total options granted, such as: (i) the development of the EBITDA of the Group, (ii) the development of costs and expenses of the Group, during the Vesting Period and/or (iii) other parameters as set out by the Management Board or the supervisory board (as the case may be). Based on the results of the six-month period ended June 30, 2006 management believes that the performance criteria for these options will be met and has properly incorporated this expectation into the calculation of the fair value of the liability at 30 June 2006. 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 period are as follows:

	Number of share options	**Weighted average exercise price, USD**
Outstanding at the acquisition date (Note 8)	6,129,088	0.30
Granted during the period	-	-
Outstanding at the end of the period	6,129,088	0.30

(expressed in thousands of US Dollars, unless otherwise stated)

27 SHARE-BASED PAYMENTS (continued)

The options outstanding at the end of the period have a weighted average remaining contractual life of 3.6 years. The options were granted on 16 August 2005 and 2 December 2005. The estimated fair values of the options granted as at 30 June 2006 were USD 72,156 (expected life 4 years), USD 9,976 (expected life 5 years) and USD 14,952 (expected life 6 years). These amounts are accrued to the extent that the vesting period of the options passed by the balance sheet date. As of 30 June 2006, a total of 853,203 options have vested. Intrinsic value of these vested options was USD 13,636 at 30 June 2006.

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

	6 months ended 30 June 2006
Weighted average price of 1 GDR representing ¼ of a one share (USD)	16.65
Weighted average exercise price (USD)	0.30
Expected volatility	57.9%
Weighted average remaining contractual life (years)	3.6
Risk free interest rate	3%
Expected dividend yield	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. Management assumes that holders will exercise the options on the last possible date, i.e. one year from the date of vesting, due to behavioural considerations.

During 6 months ended 30 June 2006 the Group recognised an expense of USD 3,853 (6 months 2005: nil) related to share-based payment transactions during the year.

28 INCOME TAX

	6 months ended 30 June 2006	2005
Current income tax charge	17,296	4,715
Deferred income tax (benefit) / charge	(2,467)	1,058
Income tax charge for the period	14,829	5,773

Net profit before taxation for financial reporting purposes is reconciled to income tax expense as follows:

	6 months ended 30 June 2006	2005
Profit before taxation	36,364	24,596
Theoretical tax at the effective statutory rates *	8,728	5,904
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income taxable at rates different from standard statutory rates	(4,506)	(6,450)
Inventory shrinkage expenses	2,029	1,127
Other non-deductible expenses	5,996	1,707
Provision for tax contingencies (Note 32)	2,582	3,485
Income tax charge for the period	14,829	5,773

* Profit before taxation on Russian operations is assessed based on statutory rate of 24%, profit before taxation on Ukrainian operations is assessed based on statutory rate of 25%.

Deferred income tax

Differences between financial reporting standards and taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities and their tax bases. The tax effect of the movement on these temporary differences is recorded at the rate of 24% for Russian operations and of 25% for Ukrainian operations.

(expressed in thousands of US Dollars, unless otherwise stated)

28 INCOME TAX (continued)

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the six months ended 30 June 2006:

	31 December 2005	Movement in period	Deferred tax on business combinations (Note 8)	Deferred tax asset in disposed subsidiaries (Note 9)	Recognised in equity for translation differences	30 June 2006
Tax effects of deductible temporary differences and tax loss carryforwards:						
Tax losses available for carry forward	1,269	(1,320)	-	-	51	-
Property, plant and equipment	-	202	4,090	-	(22)	4,270
Accounts Receivable	3,001	1,917	1,170	-	128	6,216
Other	(1,131)	1,710	6,710	(76)	10	7,223
Gross deferred tax asset	**3,139**	**2,509**	**11,970**	**(76)**	**167**	**17,709**
Less offsetting with deferred tax liabilities	(3,139)	(1,532)	(10,337)	76	(240)	(15,172)
Recognised deferred tax asset	-	**977**	**1,633**	-	**(73)**	**2,537**
Tax effects of taxable temporary difference:						
Property, plant and equipment	(14,764)	(58)	(19,447)	-	(774)	(35,043)
Intangible assets	(5,049)	16	-	-	(2)	(5,035)
Gross deferred tax liability	**(19,813)**	**(42)**	**(19,447)**	-	**(776)**	**(40,078)**
Less offsetting with deferred tax assets	3,139	1,532	10,337	(76)	240	15,172
Recognised deferred tax liability	**(16,674)**	**1,490**	**(9,110)**	**(76)**	**(536)**	**(24,906)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 68,166 (31 December 2005: USD 1,510) for which the deferred tax liability was not recognised as such amounts are reinvested for the foreseeable future.

(expressed in thousands of US Dollars, unless otherwise stated)

28 INCOME TAX (continued)

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the six months ended 30 June 2005:

	31 December 2004	Movement in period	Deferred tax liability on acquisitions	Recognised in equity for translation differences	30 June 2005
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	1,471	(186)	-	(43)	1,242
Accounts receivable	795	1,466	-	(61)	2,200
Other	(140)	(653)	-	20	(773)
Gross deferred tax asset	**2,126**	**627**	-	**(84)**	**2,669**
Less offsetting with deferred tax liabilities	(2,126)	(627)	-	84	(2,669)
Recognised deferred tax asset	-	-	-	-	-
Tax effects of taxable temporary difference:					
Property, plant and equipment	(15,563)	1,754	(678)	553	(13,934)
Intangible assets	(143)	(3,439)	(783)	(12)	(4,377)
Gross deferred tax liability	**(15,706)**	**(1,685)**	**(1,461)**	**541**	**(18,311)**
Less offsetting with deferred tax assets	2,126	627	-	(84)	2,669
Recognised deferred tax liability	**(13,580)**	**(1,058)**	**(1,461)**	**457**	**(15,642)**

29 GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

During the 6 months ended 30 June 2006 the Group disposed of part of a building to a third party. During the 6 months ended 30 June 2005 the Group has disposed of a construction project in progress.

	30 June 2006	30 June 2005
Consideration received		
Fair value of short-term accounts receivable	4,532	7,850
Cash and cash equivalents	580	2,500
Fair value of lease rights received	-	15,864
Total consideration received	5,112	26,214
Costs related to disposal		
Carrying amount of property, plant and equipment disposed	(2,865)	(6,023)
Costs directly attributable to disposal	-	(1,500)
Total costs related to disposal	(2,865)	(7,523)
Net gain	2,247	18,691
Net loss on disposals of other property, plant and equipment	(231)	(135)
	2,016	**18,556**

Non-cash consideration from the disposal of the construction project in progress has been excluded from the cash flow statement.

30 SEASONALITY

The Group experiences seasonal effects on its business – increased customers activity in January and December results in the increase of sales made by the Group. The majority of expenses have the same trend as sales with the following exceptions:

- The volume of repair and maintenance works increases in the May-September period as the ambient temperature is conducive to this activity. In addition, the lower level of customer activity enables the Group to minimize missed profits;

- Utility expenses are normally higher during winter period due to increased electricity and heating service consumption.

31 FINANCIAL RISKS

Credit risk

Financial assets, which are potentially subject to credit risk, consist principally of cash and cash equivalents held in banks, trade and other receivables. The Group has no significant concentration of credit risk. Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default. The Group has policies in place to ensure that sales of products and services are made to wholesales customers with an appropriate credit history. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Foreign exchange risk

The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 18). The Group does not utilise financial instruments to hedge against its exposure to fluctuations in foreign exchange rates (or interest rates, see below). The Group does not have formal arrangements to mitigate the foreign exchange risks of its operations.

Interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing short-term and long-term borrowings. The Group has no significant interest-bearing assets.

Fair values

The fair value of bonds traded on the MICEX is determined based on market quotations and amounted to USD 224,206 at 30 June 2006 (31 December 2005: USD 213,635).

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and making assumptions that are based on market conditions existing at each balance sheet date.

The carrying amounts of financial assets and liabilities with short-term maturity are assumed to approximate their fair values. At 30 June 2006 and 31 December 2005, the fair value of long-term borrowings was estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. This fair value was not materially different from the carrying amount for the borrowings.

Liquidity risk

At 30 June 2006 the Group has negative working capital of USD 214,054 (31 December 2005: USD 34,364). As described in the Note 18, the whole carrying amount of Perekrestok's bonds of USD 55,087 is classified as a current liability. After the reporting date, the Group has received claims for redemption only in the amount of USD 21,559.

As described in Note 18 the Group has unutilised loan facility of USD 336,000 under syndicated loan agreement.

Furthermore, the Group has adequate credit lines with Alfa-bank (Note 10). As of 30 June 2006 the USD 100,000 credit line with Alfa-bank was utilised in the amount of USD 37,500 (31 December 2005: nil).

Management is of the opinion, that these available credit lines are sufficient to finance the Group's current operations.

(expressed in thousands of US Dollars, unless otherwise stated)

32 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 30 June 2006, the Group operated 276 stores through rented premises (31 December 2005: 73). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts and predominantly denominated in USD. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover.

The future minimum lease payments under non-cancellable operating leases of property are as follows (net of VAT):

	30 June 2006	30 June 2005
During 1 year	63,450	27,619
In 2 to 5 years	210,555	92,312
Thereafter	113,369	117,209
	387,374	**237,140**

Capital expenditure commitments

At 30 June 2006 the Group had contracted capital expenditure for USD 31,195 (including VAT) (31 December 2005: USD 25,483).

Taxation environment

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there is scope for companies to structure transactions so as to take advantage of possibilities in the Russian tax legislation to reduce the overall effective tax rate. As part of the conversion of its financial statements to International Financial Reporting Standards as adopted by the European Union, the Group recorded certain transactions differently from the underlying statutory accounting and tax reports to reflect their underlying economic substance. Although there have historically been no significant liabilities arising from tax audits, the potential for assessments remains and the result of an assessment could be material for the Group.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the 3 years tax inspection right has expired but which, under certain circumstances, may be challenged by regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management has recorded provisions of USD 11,791 (31 December 2005: USD 8,000) in these consolidated interim financial statements as their best estimate of potential liabilities arising from such tax contingencies. However, the range of potential exposures has not been disclosed to avoid prejudicing the Group's position. Management has taken active steps to reduce the possibility of such risks in the future.

33 SUBSEQUENT EVENTS

Perekrestok bonds

In July 2006 coupon rate for 3rd and 4th coupons of Perekrestok's bonds was set at the level of 8.15% per annum. Following the change in the coupon rate the Group has received claims for redemption amounting to RR 584 million (USD 21,559) and purchased these bonds. In August – September 2006 these bonds were sold to a third party with a premium of 0.05% of nominal value as these bonds have a remaining maturity of two years.

Redemption of borrowings

In July – September 2006 all short-term borrowings which were payable as of 30 June 2006, except for the current portion of Perekrestok's bonds, were fully repaid.

In July – September 2006 all long-term borrowings which were payable as of 30 June 2006, except for Perekrestok's bonds, Pyaterochka Finance's bonds first and second issue, Syndicated loan and long-term loans from Sberbank amounting RR 924 million (USD 34,123), were fully repaid.

Utilisation of syndicated loan

In July – September 2006 the Group has utilised an additional USD 190,000 of the syndicated loan.