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Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to Pyaterochka Holding N.V.

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PYATEROCHKA HOLDING N.V.

(A public limited liability company incorporated in The Netherlands)

Global Offering of 11,492,036 Ordinary Shares in the form of 45,968,144 Global Depositary Receipts Offer Price US\$13.00 per Global Depositary Receipt

This Offering Circular relates to an offering (the "Global Offering") of 11,492,036 ordinary shares, each with a nominal value of €1.00 per share (the "Shares"), of Pyaterochka Holding N.V. (the "Company"), a public limited liability company incorporated in The Netherlands, in the form of global depositary receipts ("GDRs"), each GDR representing an interest in 0.25 Shares, by Marie-Carla Corporation N.V. (the "Selling Shareholder").

The Global Offering consists of (i) an offering (the "US Offering") in the United States only to "qualified institutional buyers" (each a "QIB" as defined in Rule 144A ("Rule 144A") under the United States Securities Act of 1933 (the "Securities Act") of GDRs (the "Rule 144A GDRs") in reliance on Rule 144A; and (ii) an offering (the "International Offering") outside the United States of GDRs (the "Regulation S GDRs") in reliance on Regulation S under the Securities Act ("Regulation S"). The GDRs will not be offered to residents of The Netherlands other than to professional investors. None of the GDRs is being made available, in whole or in part, to the public in connection with the Global Offering.

The Selling Shareholder has granted to Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited an option (the "Over-allotment Option") exercisable at any time from the date hereof up to 30 days after the closing of the Global Offering, which is expected to occur on or about 11 May 2005 (the "Closing Date"), to purchase a maximum of 1,723,805 additional ordinary shares in the form of 6,895,220 GDRs, solely to cover over-allotments, if any, in the Global Offering and/or to cover short positions relating to stabilisation activities. See "Subscription and Sale".

The GDRs are of a specialist nature and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See "Risk Factors" beginning on page 7 for a discussion of certain matters that prospective investors should consider prior to making an investment decision.

THE GDRs OFFERED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE GDRs ARE BEING SOLD IN THE UNITED STATES ONLY TO QIBs IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144A AND IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE GDRs MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON TRANSFER, SEE "TRANSFER RESTRICTIONS, SELLING RESTRICTIONS AND SETTLEMENT".

Application has been made (i) to the UK Listing Authority (the "UKLA") for the GDRs to be admitted ("Admission") to the Official List of the UKLA (the "Official List"); (ii) to London Stock Exchange plc (the "London Stock Exchange") for the GDRs to be admitted to trading through the International Order Book of the London Stock Exchange (the "IOB"); and (iii) for the Rule 144A GDRs to be designated as eligible for trading in the PORTAL Market of The Nasdaq Stock Market, Inc. ("PORTAL"). Prior to the Closing Date, there has not been any public market for the Shares or the GDRs. It is expected that conditional trading in the GDRs on the London Stock Exchange through the IOB and in the Rule 144A GDRs on PORTAL will commence on a "when issued" basis on or about 6 May 2005, and unconditional trading in the GDRs on the London Stock Exchange through the IOB and in the Rule 144A GDRs on PORTAL will commence on or about 11 May 2005.

All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The Shares have not been, and are not expected to be, listed on any stock exchange.

A copy of this Offering Circular, including the financial statements included herein, comprises Listing Particulars relating to the Company prepared in accordance with the Listing Rules of the UKLA (the "Listing Rules") made pursuant to Part VI of the Financial Services and Markets Act 2000 (the "FSMA") and has been delivered to the Registrar of Companies for England and Wales for registration in accordance with Section 83 of that Act.

The Shares and the GDRs are not listed in The Netherlands. This Offering Circular has not been reviewed, approved or disapproved by any regulatory authority in The Netherlands. The Company is not subject to the ongoing reporting requirements of the securities laws of The Netherlands.

The GDRs offered hereby are offered severally by the Managers referred to in "Subscription and Sale" (the "Managers") or through their selling agents, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The Regulation S GDRs will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR") registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York, London branch, as common depository for Euroclear Bank N.V./S.A. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR" and, together with the Master Regulation S GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") in New York. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg, and their direct and indirect participants. It is expected that delivery of the GDRs will be made on or about 11 May 2005 through DTC, Euroclear and Clearstream, Luxembourg.

Joint Global Coordinators and Bookrunners

Credit Suisse First Boston

Morgan Stanley

Co-Lead Managers

United Financial Group

ING Financial Markets

Co-Manager

Gazprombank

The date of this Offering Circular is 6 May 2005

The Company accepts responsibility for the information contained in this Offering Circular. To the best of the Company's knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Any reference in this Offering Circular to Listing Particulars means this Offering Circular excluding all information incorporated by reference. The Company has confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in this Offering Circular to satisfy the requirements of the FSMA or the Listing Rules. The management of the Company believes that none of the information incorporated herein by reference conflicts in any material respect with the information included in this Offering Circular. The contents of the Company's website do not form part of this Offering Circular.

Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited are acting exclusively for the Company and the Selling Shareholder and no one else in connection with the Global Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Global Offering.

No person is authorised to give any information or to make any representation in connection with the offering or sale of the GDRs other than as contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Selling Shareholder, the Depositary (as defined below) or any of the Managers. This Offering Circular is being furnished by the Company and the Selling Shareholder solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. No representation or warranty, express or implied, is made by any Manager or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by any Manager as to the past or the future. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct at any time subsequent to its date. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

This Offering Circular does not constitute an offer to sell, or a solicitation by or on behalf of the Company, the Selling Shareholder, the Depositary or any Manager to any person to subscribe for or purchase any of the GDRs in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Offering Circular and the offering or sale of the GDRs in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular may come are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe such restrictions. No action has been taken by the Company, the Selling Shareholder or the Managers that would permit, otherwise than under the Global Offering, an offer of the GDRs, or possession or distribution of this Offering Circular or any other offering material or application form relating to the GDRs in any jurisdiction where action for that purpose is required. This Offering Circular may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the GDRs is set forth under "Subscription and Sale".

The Regulation S GDRs and the Rule 144A GDRs will be delivered by The Bank of New York, as depositary (the "Depositary"), pursuant to the Deposit Agreement (the "Deposit Agreement"), expected to be dated the Closing Date, between the Company and the Depositary. The Shares represented by the GDRs will be registered in the name of the Depositary or its nominee.

In connection with the Global Offering, Morgan Stanley & Co. International Limited (the “Stabilising Manager”) or any of its agents may, for a limited period, over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no obligation on the Stabilising Manager nor any of its agents to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of this Offering Circular, including the risks involved.

The GDRs are not, will not, and may not be, offered other than to: (i) persons established, domiciled or resident in The Netherlands who trade or invest in securities in the conduct of their profession or trade within the meaning of Section 2 of the Exemption Regulation to the Netherlands Securities Market Supervision Act 1995, as amended (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*) (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities) and (ii) persons who are established, domiciled or resident outside The Netherlands.

This Offering Circular is only being distributed to and is only directed at (i) persons who are outside the United Kingdom; or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the “Order”); or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a)-(d) of the Order (all such persons together being referred to as “relevant persons”). The GDRs are only available to, and any invitation, offer or agreement to subscribe for, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents.

The Shares and the GDRs have not been registered under the law of the Russian Federation “On the Securities Market” dated 22 April 1996, as amended, and are not being offered, sold or delivered directly in the Russian Federation (“Russia”) or to any Russian resident.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

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

- those discussed in “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Offering Circular; and
- the ability of the Group (as defined below) to implement and finance its expansion programme in its current and, potentially new, markets.

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

AVAILABLE INFORMATION

For so long as any Shares or GDRs representing such Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934 (the “Exchange Act” and, together with the Securities Act, the “Securities Laws”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

The Company has agreed to furnish the Depositary with all notices of meetings of the holders of Shares and certain other reports and communications that are generally made available to holders of Shares as the Depositary may reasonably request. In addition, the Company will provide the Depositary with the annual consolidated and semi-annual financial statements prepared in conformity with International Financial Reporting Standards (“IFRS”) in the English language. Upon receipt thereof, the Depositary will make available such reports, notices and communications to all recorded holders of the GDRs.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company is incorporated under the laws of The Netherlands. Certain persons referred to herein are residents of Russia and certain entities referred to herein are organised under the laws of Russia or The Netherlands. All or a substantial portion of the assets of such persons, entities and the Company are located outside the United States and outside the United Kingdom. As a result, it may not be possible for investors to effect service of process upon such persons in the United States or to enforce against them or the Company judgments obtained in United States courts predicated upon the civil liability provisions of the Securities Laws. Dutch courts will not enforce any such liabilities and a new action or judgment of a Dutch court is necessary. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be partially unenforceable in The Netherlands.

Judgments rendered by a court in any jurisdiction outside Russia will be recognised by courts in Russia only if (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where judgment is rendered and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been passed and no such treaty for the reciprocal enforcement of foreign court judgements exists between Russia, on one hand, and the United States or the United Kingdom, on the other.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

The Company’s audited combined and consolidated financial statements in respect of the financial years ended 31 December 2004, 2003 and 2002 included in this Offering Circular (the “Financial Statements”) have been prepared in accordance with IFRS. Prospective investors should consult their own professional advisers for an understanding of the differences between IFRS and US Generally Accepted Accounting Principles (“US GAAP”). See “Summary of Certain Differences Between IFRS and US GAAP” for a discussion of some significant differences. For a discussion of the principles of combination of the Financial Statements, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Principles of Combination” and the notes to the Financial Statements.

The Financial Statements include Speak Global Ltd. (“Speak Global”). Speak Global, a company incorporated in Cyprus, is the owner of the Pyaterochka trademark in Russia and was, during the periods covered by the Financial Statements, an affiliate of the Company under common control and management. Speak Global became a wholly owned subsidiary of the Company in March 2005.

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

Where like-for-like revenue information is given in this Offering Circular, it is a comparison in two consecutive financial years of the revenue of the stores open at the beginning of the first of the two consecutive financial years and not closed down permanently, expanded or downsized by the end of the second of the two consecutive financial years. Such revenue is calculated on the basis of the gross cash receipts of the relevant stores translated into US Dollars (at the average of the official exchange rates quoted by the Central Bank of Russia (the “Central Bank”) in the relevant year) and adjusted for applicable taxes to arrive at a net revenue on a per store basis. The Group calculates like-for-like revenue on the basis of certain assumptions made by management of the Company, including assumptions relating to tax. Therefore, the Group’s like-for-like revenue information may not be comparable to like-for-like revenue information reported by other companies.

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

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

In this Offering Circular all references to “RUR” and “Rouble” are to the currency of Russia, all references to “€” and “Euro” are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time, all references to “£” are to the currency of the United Kingdom of Great Britain and Northern Ireland, and all references to “US\$” and “US dollar” are to the currency of the United States of America.

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

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

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

MARKET SHARE INFORMATION

The market, industry and market share data contained in this Offering Circular have been taken from industry reports. In particular, market data has been sourced from reports published by, among others, the Russian State Statistics Committee (“Rosstat”), Interactive Research Group (“IRG”), Institute of Grocery Distribution (“IGD”) and GfK RUS (“GfK”). In the preparation of this Offering Circular, this third-party information has not been independently verified nor has there been any investigation of the validity of the methodology of or the basis used by the third parties in producing such data or making estimates and forecasts. None of the Company, the Selling Shareholder or the Managers can give any assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

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SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular.

The Business

Overview

Pyaterochka is the largest grocery retailer in Russia in terms of sales and as at 31 December 2004 operated a chain of 235 stores, of which 124 stores were located in the Moscow area and 111 stores were located in the St. Petersburg area. In addition, the Group's franchisees operated 207 stores under the Pyaterochka brand in the Russian regions outside the Moscow and St. Petersburg areas and in the neighbouring countries of Kazakhstan and Ukraine as at 31 December 2004. For the year ended 31 December 2004, the Group had total revenue of approximately US\$1.1 billion and its customers made over 196 million visits to the Group's stores. In 2004, the stores operating under the Pyaterochka brand had gross banner sales approaching US\$1.6 billion.

Pyaterochka's stores are "soft" discount stores, open seven days a week from 9am to 10pm, offering up to 3,500 products that cover the day-to-day needs of customers, including food and non-food products, fresh produce and perishables. The average size of the Group's stores is approximately 1,000 square metres, with a selling area of approximately 620 square metres.

The management of the Company believes the key factors underlying the appeal of the Group's stores to customers are:

- Convenient store location;
- Competitive prices; and
- Well-chosen range of products.

Throughout its history, Pyaterochka has positioned itself as a value-focused retailer committed to being competitive on price. A series of independent price surveys conducted in 2003 and 2004 demonstrated that a consumer basket of products most-often purchased by customers in Russia had been consistently less expensive at the Group's stores than at conventional supermarkets.

The Company, which is incorporated in The Netherlands, is the holding company of the Group and the parent company of six operating subsidiaries (the "Operating Companies"), which are incorporated in Russia and wholly owned by the Company and through which the Group manages its stores and franchising programme. Speak Global, a company incorporated in Cyprus, is a wholly owned subsidiary of the Company and is the owner of the Pyaterochka trademark in Russia.

Key strengths

The management of the Company believes that Pyaterochka's business model is well suited to help the Group retain and strengthen its leading position in the Russian grocery retail market and that the Group has the following key strengths:

Leading position in the most attractive retail markets of Russia – Pyaterochka is the largest grocery retailer in Russia in terms of sales. The Group operates in the regional markets with the highest concentration of purchasing power in Russia, the Moscow area and the St. Petersburg area, which together account for approximately one third of all retail sales in the country.

Cost leadership – Powerful purchasing – The management of the Company believes that the Group's high volume of sales from a limited range of products allows Pyaterochka to negotiate favourable terms from its suppliers and thus offer lower prices to its customers.

Cost-efficient logistics – Pyaterochka runs its own logistics operations. It operates a modern distribution centre in St. Petersburg, which the management of the Company believes enables the Group to supply its stores in a cost-efficient manner. The Group is building a distribution centre to service its stores in the Moscow area and planning the expansion of Pyaterochka's distribution facilities in St. Petersburg.

Significant share of private label goods sales – The Group is currently a leader in the sale of private label goods in Russia, with sales of private label goods representing approximately 9 per cent. of the Group's revenue in 2004. The management of the Company believes that, due to the absence of the marketing and advertising component in their cost, the sale of private label goods generally results in higher margins to the Group than sales of branded products.

Extensive expertise in managing growth through land rights acquisition and efficient store development – The management of the Company believes that having stores in key locations is essential to the success of the Group. Pyaterochka's store development team has expertise in acquiring rights to desirable land sites and properties at reasonable cost, enabling the Group to obtain approximately 20 to 30 land sites a year and giving it a land bank for store development in Russia. In addition, the management of the Company is experienced in building relatively small stores to a standardised design. It has selected certain third-party contractors and design firms in St. Petersburg who have worked, and is in the process of selecting contractors in Moscow who will work, with the Group to develop stores. The Group's contractors in St. Petersburg developed approximately 20 stores for the chain in 2004. In the Russian market, where there is a shortage of reliable contractors able and willing to build small stores to high standards, the management of the Company believes that the Group's relationships with these contractors gives the Group a competitive advantage and should allow it to continue to add new stores to the chain.

Strong operational and financial performance – Despite having been in business for only six years, the Group has achieved operating performance indicators and financial results that compare favourably with those of some of the leading European grocery retailers in the discount format.

Experienced management team and well trained workforce – The management of the Company has within six years built a leading Russian discount grocery retailer, reaching total revenue of approximately US\$1.1 billion for the year ended 31 December 2004. Most of the senior management team have been with the Group since the inception of its business and have accumulated valuable expertise in developing and managing it. The majority of the Company's employees go through a rigorous in-house training programme.

Strategy

Pyaterochka's strategy is to maintain profitable growth in the discount segment of the Russian grocery retail market by focusing on its core regional markets, as well as expanding into other Russian regions and neighbouring countries through acquisitions and franchising. The management of the Company intends to enhance further the Group's profitability by increasing the proportion of private label goods in Pyaterochka's product range and by using its increased purchasing power to achieve further cost efficiencies.

Organic growth in the core markets – The Group intends to continue the rollout of new stores in its core markets – the Moscow area (including Moscow as well as the Moscow oblast) and the St. Petersburg area. These markets have an aggregate population of more than 23 million people and account for more than one third of total Russian retail sales. In Moscow, which the management of the Company believes accounts for 22 per cent. of Russia's total grocery sales and will remain a key market for Pyaterochka, the Group has plans to increase the number of its stores from 115 (as at 31 December 2004) to 500 by the end of 2012. The Moscow oblast, which has a growing population of more than six million people, does not have many modern grocery retail formats and therefore the management of the Company believes the Moscow oblast represents a particularly attractive growth opportunity for Pyaterochka's business. The management of the Company intends to increase the number of the Group's stores in the Moscow oblast from nine (as at 31 December 2004) to 250 by the end of 2012 and believes that a modern distribution centre being built approximately 10km outside of Moscow should improve the efficiency of the Group's logistics operations in the Moscow area. In the St. Petersburg area, which has a population of more than six million and accounts for approximately 4 per cent. of total Russian grocery retail sales, the management of the Company has plans to increase the number of the Group's stores from 111 (as at 31 December 2004) to 250 by the end of 2012 and, by the end of 2005, to expand its newly built distribution centre. The management of the Company believes that the Group's land bank and its store development expertise will assist its planned development in its core markets.

Regional expansion – In addition to focusing on its core markets, Pyaterochka intends to continue the development of its franchise network in the Russian regions and neighbouring countries. The Group intends to have a presence in at least 30 out of 89 Russian regions by end of 2008, and in the longer term to expand significantly its existing franchise network in Kazakhstan and Ukraine, as well as to establish a franchise operation in Belarus. The management of the Company believes that the expansion of Pyaterochka's franchise

operations will increase the Group's purchasing power with suppliers, strengthen the recognition of its brand and enable Pyaterochka, where feasible, to expand its own store network by purchasing interests in the operations of some of its franchisees.

Acquisitions – In addition to growing organically, the Group may consider selective acquisitions of Russian grocery retailers or their retail assets, taking advantage of the highly fragmented nature of the Russian grocery retail market. In February 2005, the Company, through a member of its Supervisory Board (the “Supervisory Board”), sent a letter to certain shareholders of OOO Kopeika Trading House (“Kopeika”) (see “Business – Competition”) expressing a willingness of the Company to purchase shares in Kopeika of such shareholders as well as the shares of any other shareholders of Kopeika. See “Management's Discussion and Analysis of Financial Condition and Results of Operations – Trends and Recent Developments”.

Increased use of private label goods – Pyaterochka is currently a leader in the sale of private label goods in the Russian grocery market. In the longer term, the management of the Company is planning to increase the percentage of private label goods sales to up to 50 per cent. of the Company's total revenue. The management of the Company believes that the use of private label goods will give the Group a cost advantage over its competitors and increase its profitability.

Global Offering**Selling Shareholder** Marie-Carla Corporation N.V.

The Selling Shareholder currently owns 51.28 per cent. of the Company's issued share capital. Following the Global Offering, the Selling Shareholder will own approximately 21.28 per cent. of the Company's issued share capital (or approximately 16.78 per cent. assuming exercise in full of the Over-allotment Option). See "Shareholders and Related Party Transactions".

Global Offering The Global Offering comprises 45,968,144 GDRs representing 11,492,036 Shares to be sold by the Selling Shareholder. The Rule 144A GDRs are being offered only to QIBs in the United States in reliance on Rule 144A and the Regulation S GDRs are being offered outside the United States in reliance on Regulation S. All of the GDRs are being offered and sold by the Selling Shareholder.**Closing Date** On or about 11 May 2005**Over-allotment Option** The Selling Shareholder has granted Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited an option exercisable at any time from the date of this Offering Circular up to 30 days after the Closing Date to purchase up to an additional 1,723,805 Ordinary Shares (as defined below) Shares in the form of 6,895,220 GDRs at the Offer Price solely to cover over-allotments, if any, in the Global Offering and/or to cover short positions relating to stabilisation activities.**Offer Price** US\$13.00 per GDR**GDRs** Each GDR will represent 0.25 Shares. The GDRs will be delivered by the Depositary under the Deposit Agreement. The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, the Regulation S GDRs will be evidenced by the Master Regulation S GDR and both Master GDRs will be issued pursuant to the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts" and "Summary of Provisions Relating to the GDRs while in Master Form". Holders of fewer than four GDRs will not be entitled to exercise voting rights. See "—Voting Rights".**Depositary** The Bank of New York**Lock-up** Each of the Company and the Shareholders (as defined below) has undertaken that, during the period beginning with the date of the Underwriting Agreement (as defined below) and continuing to, and including the date 180 days after the Closing Date, it will not offer, issue, sell, contract to sell, pledge (or charge in respect of the Shareholders), grant options over or otherwise dispose of any of the Company's securities (or publicly announce any such issuance, offer, sale or disposal) that are substantially similar to the Shares or GDRs, without the prior written consent of Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited, subject to certain exceptions.**Use of Proceeds** The Company will receive no proceeds from the sale of GDRs in the Global Offering or from the exercise of the Over-allotment Option.**Voting Rights** The Ordinary Shares are subject to applicable provisions of Dutch corporate law and the articles of association of the Company (the "Articles"). The exercise of votes by the holders of GDRs will be effected through the Depositary pursuant to the terms of the Deposit Agreement. The Deposit Agreement does not allow for the voting of fractional entitlements. Thus, holders of fewer than four GDRs will not be entitled to vote. See "Terms and Conditions of the Global Depositary Receipts – Voting Rights".

Dividend Policy	In the past, the Company's dividend policy has been to pay out five to ten per cent. of the Company's net income as a dividend. For the foreseeable future, the Company's Supervisory Board expects to recommend dividends in line with this dividend policy. See "Dividend Policy".
Shareholders of the Company	The Selling Shareholder and Tayleforth N.V.
Share Capital	At the date of this Offering Circular, the Company's authorised share capital consists of 190 million ordinary shares with a nominal value of €1.00 per share (the "Ordinary Shares") and the current issued capital consists of 38,306,785 issued and outstanding Ordinary Shares, all of which are fully paid. See "Description of Share Capital and Corporate Structure".
Taxation	For a discussion of certain US federal income tax, United Kingdom tax and Dutch tax consequences of purchasing and holding the GDRs, see "Taxation".
Listing and Trading	Application has been made (i) to the UKLA for Admission to the Official List; (ii) to the London Stock Exchange for the GDRs to be admitted to trading through the IOB; and (iii) for the Rule 144A GDRs to be designated as eligible for trading in PORTAL. Prior to the Closing Date there has not been any public market for the Shares or the GDRs. It is expected that conditional trading in the GDRs through the IOB and in the Rule 144A GDRs on PORTAL will commence on a "when issued" basis on or about 6 May 2005, and unconditional trading in the GDRs on the London Stock Exchange through the IOB and in the Rule 144A GDRs on PORTAL will commence on or about 11 May 2005. The Shares have not been, and are not expected to be, listed on any stock exchange.
Payment and Settlement	Application will be made to have the Rule 144A GDRs accepted for clearance through DTC and the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg. Payment for, and delivery of, the Rule 144A GDRs will be made in US dollars in same-day funds on or about the Closing Date through the facilities of DTC. Payment for, and delivery of, the Regulation S GDRs will be made in US dollars in same-day funds on or about the Closing Date through the facilities of Euroclear and Clearstream, Luxembourg.
GDR Security Numbers	The security identification numbers for the GDRs are as follows: Rule 144A GDRs ISIN: 7470711083 CUSIP: 747071108 Common Code: 021855600 PORTAL trading symbol: PYATFPYR Regulation S GDRs: ISIN: 7470712073 CUSIP: 747071207 Common Code: 021832693 London Stock Exchange trading symbol: FIVE
Transfer restrictions	See "Transfer Restrictions, Selling Restrictions and Settlement" for a detailed description of the restrictions on transfers of the GDRs.
Risk Factors	In addition to the other information in this Offering Circular, prospective investors should carefully consider the risks described under "Risk Factors" before deciding whether to invest in the GDRs.

Summary Financial Data

The following summary financial information has been extracted without material adjustment from, and should be read in conjunction with, the Company's Financial Statements appearing in "Financial Statements" as well as with "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The Company's Financial Statements have been prepared on the basis of IFRS. See "Summary of Certain Differences Between IFRS and US GAAP" and Note 2 to the Company's Financial Statements set forth in "Financial Statements".

	As at and for the year ended 31 December		
	2004	2003	2002
	(US\$ thousands, except per share amounts)		
Combined and consolidated income statement data			
Revenue	1,105,803	759,584	493,240
Cost of sales	(860,356)	(612,852)	(409,838)
Gross profit	245,447	146,732	83,402
Selling, general and administrative expenses	(148,444)	(101,747)	(51,078)
Operating profit	97,003	44,985	32,324
Finance costs, net	(3,736)	(1,170)	(1,452)
Other expenses, net	(427)	(1,577)	(778)
Net monetary gain	—	—	3,131
Foreign currency exchange gain	1,119	258	—
Profit before income tax	93,959	42,496	33,225
Income tax	(19,524)	(8,713)	(4,488)
Net profit	74,435	33,783	28,737
Earnings per share, basic and diluted, US dollar per share ⁽¹⁾	1.94	0.88	0.75
Combined and consolidated cash flow data			
Net cash provided by operating activities	107,780	71,360	43,699
Net cash used in investing activities	(131,555)	(70,994)	(52,888)
Net cash provided by financing activities	23,435	7,912	4,050
Combined and consolidated balance sheet data (end of period)			
Cash and cash equivalents	14,748	14,343	5,610
Total assets	415,647	246,652	135,013
Total debt (long-term and short-term)	74,647	23,068	9,427
of which long-term obligations under finance leases	3,546	1,412	—
Total liabilities	249,645	141,384	67,606
Total shareholders' equity	166,002	105,268	67,407

Note:

(1) Earnings per share have been determined using the weighted average number of Ordinary Shares outstanding during the years ended 31 December 2004, 2003 and 2002. On average, there were 38,306,785 Ordinary Shares outstanding for each of the three years.

RISK FACTORS

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

RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY

Risks relating to demand and competition

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

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

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

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

Risks relating to expansion

The failure of Pyaterochka's expansion strategy could hamper its continued growth and profitability

At present, the stores operating under Pyaterochka's brand are located in the Moscow area, the St. Petersburg area and ten other regions of Russia, as well as Kazakhstan and Ukraine. As part of Pyaterochka's strategy, it plans to increase substantially the number of stores operating under its brand in these areas, as well as to extend its franchising programme to cover 30 Russian regions by the end of 2008. The Group's expansion plans make it dependent on economic conditions and several other factors.

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

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

Pyaterochka may expand its business through acquisitions. The pursuit of acquisition opportunities entails certain risks, including failing to identify suitable acquisition targets and/or failing to conduct appropriate due diligence on their operations and/or financial condition; incurring significantly higher than anticipated financing-related risks and operating expenses; failing to assimilate the operations and personnel of acquired businesses; failing to install and integrate all necessary systems and controls; losing customers; entering markets in which Pyaterochka has no or limited experience and/or where there may be limited access to requisite logistics and distribution facilities and arrangements; and experiencing the disruption of ongoing business and the strain of the Group's management resources. If the Group fails to integrate its acquisitions successfully, it could have a material adverse effect on its business, financial condition and operating results.

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

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

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

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

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

Risks relating to the Group's real estate

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

The Group's ability to open new stores is heavily dependent on identifying and leasing and/or purchasing properties that are suitable for its needs on commercially reasonable terms. The market for property in large metropolitan areas in Russia is highly competitive and, when economic conditions are favourable, competition for, and therefore the cost of, high-quality sites may increase. If the Group fails to identify and secure sites on a timely basis for any reason, including competition from other companies seeking similar sites, its anticipated growth may be adversely affected. Even if Pyaterochka procures the rights to suitable sites, it may experience difficulty or delay in obtaining approvals from the various regional authorities required to undertake construction and to secure Pyaterochka's rights to the use of stores or to refit or refurbish those stores. See also "Regulation of Real Estate and Grocery Retail in Russia". Consequently, there can be no assurance that Pyaterochka will successfully identify, lease and/or purchase suitable properties on acceptable terms or whenever required. Such failures could have a material adverse effect on its business, financial condition and operating results.

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

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

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

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

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

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

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

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

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

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

Risks relating to the Group's franchising activities

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

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

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

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

Pyaterochka's expansion strategy depends on its ability to buy out existing franchisees

It is anticipated that a significant proportion of Pyaterochka's growth will arise from its ability to purchase a proportion of the equity in or assets of its franchisees operating in certain territories covered by existing franchise agreements and subsequently redefine those territories and enter into franchise agreements with additional franchise partners. There can be no guarantee that Pyaterochka will be able to reach agreement with the franchisees that have been identified as suitable for such a purchase or that the relevant franchisees will perform their obligations under any such agreement. The inability of the Group to purchase equity interests from its franchisees would have a negative impact on the expansion strategy of the Group.

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

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

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

Other risks relating to the Group's business

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

The Group has engaged in transactions with related parties and may continue to do so. For example, the Group has engaged in transactions with companies controlled by and/or related to certain members of the Supervisory Board, including equity purchases and sales, services contracts and financing arrangements. Conflicts of interest may arise between such companies and the Group, potentially resulting in the conclusion of transactions on terms not determined by market forces. See "Shareholders and Related Party Transactions".

Pyaterochka's brand names and other intellectual property are critical to its business

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

Russia and the other countries in which the Group operates generally offer a lower level of intellectual property rights enforcement than countries in Europe and North America. The Company believes it has taken appropriate steps to protect its trademark and other intellectual property rights but cannot be certain that such steps will be sufficient or that third parties will not infringe or challenge such rights. If the Group is unable to protect such intellectual rights against infringement, it could have a material adverse effect on its business, financial conditions and operating results.

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

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

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

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

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

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

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

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

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

Systems failures and delays could harm the Group's business

The Group manages its inventory and logistical operations through a variety of electronic media, including an intranet, networked personal computers and automated inventory management systems. These operations are heavily dependent on the integrity of the electronic systems supporting them. Pyaterochka's systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, intentional acts of vandalism and similar events. There can be no assurance that Pyaterochka's systems will not suffer failures or delays in the future causing significant losses to its business. Significant systems failures and delays could cause unanticipated disruptions in service, decreased customer service and customer satisfaction and harm to Pyaterochka's reputation, which could result in loss of customers, increased operating expenses and financial losses.

The interests of certain members of the Supervisory Board may conflict with those of Pyaterochka

Certain members of the Supervisory Board have interests and may in the future have additional interests in certain businesses that directly or indirectly compete with the Group's business. Such businesses include, in particular, a hyper-markets business which shares certain services with the Group. See "Shareholders and Related Party Transactions". In addition, following the Global Offering, 70.0 per cent. of the outstanding Ordinary Shares of the Company will be beneficially owned by these members of the Supervisory Board (or 65.5 per cent. if the Over-allotment Option is exercised in full). See "– Risks Relating to the Global Offering, Shares and GDRs – The Company has been and will continue to be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the GDRs". Conflicts of interest that may materially and adversely affect the Group's business, financial condition and operating results could deter prospective investors from investing in Pyaterochka, which could adversely impact Pyaterochka and/or the market price of the GDRs.

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

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

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

In March 2005, the Group sold to another group of companies controlled by the Shareholders shares in certain Russian companies for nominal consideration, which had the economic effect of a dividend in kind with an aggregate value of approximately US\$59.7 million (see "Shareholders and Related Party Transactions – Related Party Transactions – Related party transactions relating to the Carousel project"). Under the tax laws of The Netherlands, such sale may qualify as a taxable event for the purposes of Dutch dividend withholding tax. Such tax, if levied in connection with such an event, will be calculated at a rate of up to 8.3 per cent. on the aggregate fair market value of the assets transferred in connection with such share sale. The Shareholders have agreed jointly and severally to indemnify Pyaterochka for any resulting tax liability (including any interest and penalties).

In March 2005, the Shareholders transferred to the Company, as a free share premium contribution, the entire issued share capital of Speak Global. Under the Dutch tax laws the Group's shareholding in Speak Global may be considered a "portfolio investment" for Dutch tax purposes, which would result in tax liability calculated at a rate of up to 31.5 per cent. on any increase of the fair market value ascribed by the Dutch tax authorities to the Group's shareholding in Speak Global since the date of the contribution in the year ending 31 December 2005 or

any subsequent years. There is no certainty as to the method of valuation to be applied by the Dutch tax authorities in ascribing fair market value to the Group's shareholding in Speak Global. If the Dutch tax authorities determine a significant increase in the fair market value of the Group's shareholding in Speak Global in the year ending 31 December 2005 and/or any subsequent years, this could adversely affect the Group's business, financial condition and operating results.

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

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

RISKS RELATING TO RUSSIA

Political risks

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

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

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

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

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

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

Russia is a federation of 89 sub-federal political units (which number will be reduced to 88 from 1 December 2005), consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, in the past conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation, regulation of land use and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts in Russia and such challenges may occur in the future. This lack of consensus hinders Pyaterochka's long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent the Group from effectively and efficiently carrying out its business strategy.

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

Economic risks

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

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

Economic instability in Russia could adversely affect Pyaterochka's business

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

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

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

There can be no assurance that recent trends in the Russian economy, such as the increase in the gross domestic product, a relatively stable Rouble and a reduced rate of inflation, will continue. For example, in the first quarter of 2005, the inflation rate in Russia increased and economic growth slowed down. Additionally, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is especially vulnerable to fluctuations in the price of oil and natural gas on the world market and a decline in the price of oil and natural gas could significantly slow or disrupt the Russian economy. Recent military conflicts and international terrorist activity have created significant uncertainty about the supply of oil and natural gas and delayed the expected recovery of the global economy, and such future events may continue to adversely affect the global economic environment, which could result in a decline in the demand for oil and natural gas. A strengthening of the Rouble in real terms relative to the US dollar, changes in monetary policy, inflation or other factors could adversely affect Russia's economy and the Group's business in the future. Any such market downturn or economic slowdown could also severely limit Pyaterochka's access to capital, also adversely affecting its business and operating results in the future.

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

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

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

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

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

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decades. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout Russia are poor, with more than half of all roads not meeting minimum requirements for use and safety. The federal government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. Russia's poor physical infrastructure disrupts the transportation of goods and supplies and adds costs to doing business in Russia, and further deterioration in

the physical infrastructure could have a material adverse effect on the Group's business. In addition, there are a number of nuclear and other dangerous installations in Russia where safety systems to contain ecological risks may not be sufficiently effective. The occurrence of accidents in these installations, as well as the generally unfavourable ecological situation in Russia, may also have a material adverse effect on the Group's business and operating results.

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

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

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

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

Social risks

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

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

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

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

Legislative and legal risks

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

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

- inconsistencies between (i) federal laws; (ii) decrees, orders and regulations issued by the president, the government and federal ministries; and (iii) regional and local laws, rules and regulations;

- a lack of judicial and administrative guidance on interpreting Russian legislation;
- a lack of judicial independence from political, social and commercial forces;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation and complex commercial arrangements;
- a high degree of discretion on the part of government authorities;
- bankruptcy procedures that are not well developed and are subject to abuse; and
- a lack of binding judicial precedents.

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

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

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

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

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

Compliance with the requirements imposed by regulatory authorities may be costly and time consuming and may result in delays in the commencement or continuation of operations. Regulatory uncertainty may make it difficult for the Group to plan or conduct its business. Failure to obtain necessary approvals or licences or to comply fully with applicable regulations could delay the Group's expansion plans, require it to incur additional unanticipated expenditures or result in the imposition of sanctions, including civil and administrative penalties applicable to Pyaterochka and criminal and administrative penalties applicable to its officers and/or requirements that Pyaterochka cease certain of its business activities. No assurance can be given that, in the future, the Group will continue to hold all material licenses necessary for its existing operations or to obtain all necessary approvals and licenses required in connection with its expansion plans. Any failure to obtain such approvals or licenses may have a material adverse effect on Pyaterochka's business and financial condition.

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

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

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

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

In 2001, the Russian Civil Code (the "Civil Code") was amended and the new Russian Land Code (the "Land Code") as well as a number of other federal laws regulating land use and ownership were enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. Because of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of titles to land in Russia and the extent to which titles are encumbered. These uncertainties may have a material adverse effect on the Group's operations.

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

In order to use and develop land in Russia, approvals and consents of various federal, regional or local governmental authorities, such as the various environmental, sanitation and epidemiological control authorities,

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

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

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

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

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

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

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

The Group, or its predecessors-in-interest at different times, took a variety of actions involving share acquisitions, so called "major transactions" and "interested party transactions", transactions with state authorities and other transactions and actions that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant companies or their predecessors-in-interest, could result in the invalidation of such transactions or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, the Group may not be able to defend successfully any challenge brought against such transactions, and the invalidation of any such transactions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on Pyaterochka's business, financial condition and operating results. See also "– Legislative and Legal risks – certain characteristics of the Russian legal system and Russian legislation could have a material adverse effect on Pyaterochka's business and financial condition and the value of the GDRs".

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

Russian law generally provides that shareholders in a Russian joint stock company or a limited liability company are not liable for the obligations of such joint stock company or, as the case may be, limited liability company

and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person. The person capable of determining such decisions is called an “effective parent”. The person whose decisions are capable of being so determined is called an “effective subsidiary”. The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if

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

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

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

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

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

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

Tax reform in Russia commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (the “Tax Code”), which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and corporate property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; the profits tax and mineral extraction tax chapters came into force on 1 January 2002; and the newly introduced corporate property tax chapter of the Tax Code came into force on 1 January 2004.

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

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of the Group’s Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or

profit of another entity in Pyaterochka. In addition, payments of intercompany dividends between two Russian entities are subject to a withholding tax of 9 per cent. at the time they are paid out of profits, though this tax does not apply to dividends once they have already been taxed.

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

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

The Group has calculated its income tax liabilities in Russia taking into account certain statutory elections (including, but not limited to, the use of a statutory simplified taxation election, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Income tax expense") available to the Group and certain contractual arrangements (including, but not limited to, royalty payments for use of the trademark, see "Results of Operations – Explanation of key items in the profit and loss statement – Selling, general and administrative expense" and "Results of Operations – Explanation of key items in the profit and loss statement – Income tax" in "Management's Discussion and Analysis of Financial Condition and Results of Operations"). The management of the Company believes that the use of such elections and arrangements was and is in compliance with the Russian tax laws applicable at each relevant time. However, there can be no assurance that the use of such or some other measures will not be re-assessed or challenged by the Russian tax authorities. If such re-assessment or challenge occurs, it could materially and adversely affect the Group's business, financial condition and operating results.

Pyaterochka may be subject to vaguely drafted Russian transfer pricing rules

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

RISKS RELATING TO THE GLOBAL OFFERING, SHARES AND GDRs

The Global Offering may not result in an active or liquid trading market and investors may be unable to resell their GDRs at or above the initial offering price

Before the Global Offering, there has been no public trading market for the Shares or GDRs. After the Global Offering, an active trading market for the GDRs may not develop or, if it develops, may not be sustained. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the GDRs does not develop, the price of the GDRs may be more volatile and it may be more difficult to complete a buy or sell order for the GDRs.

The Offer Price has been determined by negotiation between the Selling Shareholder and the Managers and may not be indicative of the price at which the GDRs will trade following completion of the Global Offering. After the Global Offering, the GDRs could be subject to significant fluctuation and investors may not be able to resell the GDRs at or above the Offer Price.

The Company has been and will continue to be controlled by a group of majority shareholders whose interests could conflict with those of the holders of the GDRs

Following the Global Offering, 70.0 per cent. of the outstanding Ordinary Shares will be beneficially owned by certain members of the Supervisory Board (or 65.5 per cent. if the Over-allotment Option is exercised in full). The management of the Company believes that the involvement of the Shareholders and members of the Supervisory Board in the Group's operations has been, and will continue to be, important in the pursuit and implementation of the Group's strategy. However, there can be no assurance that they will remain controlling shareholders or continue to make their services available to the Group in the future, nor does the Group have key personnel life insurance covering any of its senior managers. The Group's business could suffer if the Shareholders and members of the Supervisory Board ceased to participate actively in its operations.

The Articles provide that resolutions at a shareholders' meeting will be adopted by a simple majority in a meeting when more than half of the issued share capital is present or represented provided that such majority represents at least half of the issued share capital of the Company. Accordingly, the Shareholders will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as they hold the majority of the Company's Ordinary Shares, will control appointment and removal of directors. The Shareholders will also be able to control or significantly influence the outcome of any vote on any proposed amendment to the Articles, merger proposal, proposed substantial sale of assets or other major corporate transactions. The interests of the Company's controlling shareholders could conflict with those of the holders of the GDRs, which could adversely affect a prospective investor's investment in the Company. Any such actions could have a material adverse effect on the Company and the market price of the GDRs.

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

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

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

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

Pre-emptive rights for US holders may not be available

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

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

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

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

Unlike nearly all other GDR offerings traded on the London Stock Exchange, the underlying Shares are neither listed nor traded on any stock exchange and the Company does not intend to apply for the listing or admission to trading of the Shares on any stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under “Terms and Conditions of the Global Depositary Receipts”, will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those Shares may be discounted as a result of such withdrawal.

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

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

There is no treaty between the United States and Russia or the United Kingdom and Russia or The Netherlands and Russia providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters. These limitations may deprive a holder of GDRs of effective legal recourse for claims related to their investment in the GDRs. Russia, the United Kingdom and The Netherlands are party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in Russia due to a number of factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts’ inability to enforce such orders and corruption.

Share issues made as part of the Company’s acquisition strategy may result in an effective dilution to holders of GDRs

As part of its acquisition strategy (see “Business – Strategy – Acquisitions”) the Company may issue additional Ordinary Shares or other securities convertible or exchangeable into Ordinary Shares, as consideration in any relevant acquisitions. Any such issues could result in an effective dilution to investors purchasing GDRs in the Global Offering and/or adversely affect the market price of the GDRs.

OTHER RISKS

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

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

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

USE OF PROCEEDS

The Company will not receive any proceeds from the sale of the GDRs by the Selling Shareholder in the Global Offering or from any exercise of the Over-allotment Option by the Managers. Such proceeds will be for the account of the Selling Shareholder.

DIVIDEND POLICY

In the past, the Company's dividend policy has been to pay out five to ten per cent. of the Group's annual net income as dividend. In the foreseeable future, the Company does not intend to change this policy significantly. The distribution of profits and payment of a dividend are subject to compliance with the Dutch Civil Code and the Articles. Dividends may in principle only be paid out of profits as shown in the adopted annual financial statements prepared using IFRS. The profits must first be used to set up and maintain reserves required by the law and must then be set off against certain financial losses. The Company's general meeting of shareholders (the "General Meeting"), on proposal of the Company's Supervisory Board, may determine which part of the profits shall be added to the reserves and the allocation of the remaining profits. On proposal of the Supervisory Board, the General Meeting may resolve to distribute all or any part of the freely distributable reserves. On proposal of the Supervisory Board, the General Meeting may also resolve in accordance with the provisions of the law and the Articles that an interim dividend shall be distributed out of the profits made in the current financial year.

As a holding company, the level of the Company's income and its ability to pay dividends depend primarily upon the receipt of dividends and distributions from its subsidiaries. The payment of dividends by its subsidiaries is contingent upon sufficiency of their earnings, cashflows and distributable profits.

For the years ended 31 December 2004 and 2003, the Company paid dividends of approximately US\$0.09 and US\$0.06 per ordinary share, respectively. The Company did not declare a dividend for the year ended 31 December 2002.

To the extent that dividends are declared and paid by the Company, holders of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. Cash dividends may be paid to the Depositary in US dollars or in Euro. If paid in Euro, cash dividends will be converted into US dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses, except as otherwise described under "Terms and Conditions of Global Depositary Receipts – Conversion of Foreign Currency".

EXCHANGE RATE INFORMATION

The official currency of Russia, where the majority of the Group's assets and operations is located, is the Rouble. Pyaterochka's IFRS Financial Statements are presented in US dollars. As a result, fluctuations in the value of the Rouble against the US dollar may affect the Group's results when translated into US dollars. See "Risk Factors – Risks Relating to Russia – Economic risks – Currency and exchange rate fluctuations may adversely affect the Group's business and financial condition and the price and liquidity of GDRs". Moreover, as a result of legislation in force in Russia relating to investments by foreign companies, Russian regulators may impose from time to time certain currency control limitations on the ability of the Group's companies to convert Roubles into US dollars or other hard currencies or to convert US dollars or other hard currencies into Roubles. See "Risk Factors – Risks Relating to the Global Offering, Shares and GDRs – The Company's ability to pay dividends and to service its debt obligations depends primarily upon receipt of sufficient funds from its subsidiaries".

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by the Central Bank. Fluctuations in the exchange rates between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

Year	High	Low	Average⁽¹⁾	Period End
2002	31.86	30.14	31.39	31.78
2003	31.89	29.25	30.67	29.45
2004	29.45	27.75	28.73	27.75
2005 (through 5 May)	28.19	27.46	27.85	27.79

Note:

- (1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

CAPITALISATION

The following table sets forth the Company's short-term borrowings and capitalisation as at 31 December 2004:

	<u>As at 31 December 2004</u> (US\$ thousands)
Short-term borrowings	<u>29,139</u>
Current portion of long-term borrowings	3,380
Current portion of finance lease obligations	1,045
Long-term borrowings, net of current portion	38,609
Long-term obligations under finance leases	<u>3,546</u>
Total borrowings	<u>46,580</u>
Issued capital	45,695
Share premium	6,213
Legal reserves and accumulated profit/(deficit)	<u>114,094</u>
Total equity	<u>166,002</u>
Total capitalisation ⁽¹⁾⁽²⁾	<u>212,582</u>

Notes:

- (1) Total of current portion of long-term borrowings, current portion of finance lease obligations, long-term borrowings net of current portion, long-term obligations under finance leases and total equity.
- (2) There has been no material change in the Company's share capital, indebtedness, contingent liabilities or guarantees since 31 December 2004. In March 2005, the Group entered into a share sale transaction which had the effect of a dividend in kind, reducing the Company's shareholders' equity. See "Shareholders and Related Party Transactions – Related Party Transactions Relating to the Carousel Project".

RUSSIAN GROCERY RETAIL INDUSTRY

Relevant demographics

Russia has a population of 144 million. It is a highly urbanised country, with 77 per cent. of its population living in urban areas and 13 cities having over one million inhabitants (Moscow, St. Petersburg, Volgograd, Ekaterinburg, Kazan, Nizhny Novgorod, Novosibirsk, Omsk, Perm, Rostov-on-Don, Samara, Ufa and Chelyabinsk).

Approximately 11 per cent. of Russians live in the Moscow area, which has more inhabitants than certain European countries, such as Belgium, Greece and Portugal. St. Petersburg, which has a population of 4.7 million, and, together with the Leningrad oblast, has an aggregate population in excess of 6 million, is the second largest economic centre in Russia.

Russian economy, consumer spending and retail market

Since the 1998 financial crisis in Russia, the Russian economy has experienced economic growth, with declining consumer price inflation and decreasing unemployment levels. According to Rosstat, unemployment has decreased from 12.6 per cent. in 1999 to 7.6 per cent. in 2004. Personal disposable income levels have increased together with average monthly wages. The nominal average monthly wage in Russia has increased to US\$190.5 in 2004 from US\$85.2 in 1999.

According to Rosstat, Russian consumers spend an estimated 55 per cent. of their disposable income on consumer goods, which is a high proportion when compared with Western European countries. This is due primarily to the average income level in Russia being much lower than in Western Europe. According to Rosstat, retail sales in Russia in 2004 totalled US\$165 billion, of which food purchases constituted 44.4 per cent. Some industry observers believe that Rosstat tends to underestimate significantly the size of the retail market as a whole, as well as each of its segments. This is a result of the large number of non-registered retail transactions taking place on open markets and through small individual trades and the fact that significant volumes of transactions may be conducted in cash or other forms of exchange, and thus are not always reported to relevant tax or other authorities.

Russian grocery retail market

Size and concentration

Similar to estimates of the proportion of unregistered transactions conducted in cash or other forms of exchange in the Russian economy that vary, there are different estimates for the Russian grocery retail market. In 2004, IGD, a UK based grocery industry research organisation, estimated the Russian grocery retail market in 2003 to be worth US\$111.5 billion, or US\$774 per capita, making it the fifth largest grocery retail market Europe.

The Russian grocery retail trade is concentrated in several key regions. The Moscow area and the St. Petersburg area are particularly attractive as they account for more than one third of Russia's total retail sales. Moscow is Russia's most attractive retail market because of its population of approximately 10.4 million (with a further 6.6 million living in the Moscow oblast) and because of the relatively higher purchasing power of its residents.

Grocery retail formats

The management of the Company believes that, notwithstanding the size and growth potential of the Russian grocery market, the country is under-supplied with modern grocery retail outlets. According to Euromonitor, a provider of global business intelligence and marketing analysis, there are approximately 395,000 food retail outlets in Russia of which fewer than 3,000 are modern grocery retail formats, such as hyper-markets and cash & carry stores, supermarkets and discounters.

According to IGD, in 2003, modern grocery retail formats accounted for only about 5.8 per cent. of the total grocery retail sales in Russia, due to the dominance of old grocery retail formats. In the old grocery retail format category, IGD includes open markets, street kiosks, traditional grocery shops (or *gastronomys*) and pavilions. According to terminology that the management of the Company believes is widely accepted in respect of Russian grocery retail:

- open markets are large outdoor markets of freestanding stalls and booths selling to both retail and small wholesale customers;

- street kiosks are small served outlets with no customer entrance, which are often located on street pavements and supply mostly tobacco, beer, snacks and basic grocery items that do not require chilling or freezing;
- pavilions are late-opening small outlets, found in similar locations to kiosks, which have customer entrances and sell a limited range of mostly grocery items that do not require chilling or freezing and fresh products; and
- traditional grocery shops (*gastronomys*) are stores with trade floor areas of fewer than 500 square metres that utilise an over-the-counter system that usually precludes customer contact with the goods.

For a discussion of modern formats, see “ – Modern grocery retail formats”.

The table below shows the distribution of Russia’s grocery retail sales by channel for each year from 2001 to 2003:

Channel	2001 (%)	2002 (%)	2003 (%)
Open markets	36	32	32
Traditional grocery shops	26	25	26
Other old formats (kiosks, pavilions)	31	32	28
Hyper-markets and cash & carry	0	1	2
Supermarkets	5	6	6
Discounters	2	4	6

Source: GfK

Most of the investment in modern retailing in Russia has been in Moscow, which has resulted in a higher percentage of grocery retail sales channelled through modern formats. However, IGD research shows that, even in Moscow, open markets and small Soviet era food shops are still the dominant channels for grocery retail. The city governments of both Moscow and St. Petersburg have embarked on a programme to close down open markets, in order to reduce the share of the “grey” grocery retail market and to improve the hygiene and sanitary standards of grocery retail, a trend that the management of the Company expects may spread through the rest of Russia’s grocery retail market. According to the Moscow city government, the number of open markets in Moscow decreased from 244 in 1999 to 117 in 2003. The management of the Company believes that the closure of these outdoor markets has helped to increase the sales of modern grocery retailers, in particular discounters.

The table below shows the distribution of Moscow grocery retail sales by channel in 2001 and 2003:

Channel	2001 (%)	2003 (%)
Open markets	25.9	24.7
Kiosks	18.3	15.2
Pavilions	13.7	7.4
Traditional grocery shops	34.1	22.8
Modern formats	8.0	29.8

Source: IGD

Modern grocery retail formats

According to IGD, modern grocery retail formats in Russia include:

- hyper-markets and cash & carry;
- supermarkets; and
- discounters.

The following discussion of these formats uses terminology, that the management of the Company believes is widely accepted in respect of Russian grocery retail.

Hyper-markets and cash & carry

Hyper-markets and cash & carry stores are stores with an average selling space of over 5,000 square metres and are often located in out-of-town shopping centres. Due to the high degree of similarity between hyper-markets and cash & carry stores, these are considered as one grocery retail format. Smaller versions of hyper-markets (from 2,500 to 5,000 square metres) are becoming increasingly popular in Eastern Europe and Russia. The management of the Company believes that the hyper-market and cash & carry chains present in the Russian market are Metro, Ramstore, Auchan and Lenta.

Supermarkets

Supermarkets are stores with a selling space of between approximately 500 and 2,000 square metres, with the number of stock keeping units (“SKUs”) offered from 10,000 to 30,000, of which approximately 70 per cent. are food. Supermarkets are typically located in city centres and in residential districts of large cities. In Russia, major supermarket chains have been developed by Seventh Continent, Perekriostok and Ramstore.

Because of their location, expensive interior, wide product range and additional services offered (frequently supermarkets have in-store bakeries and deli counters), supermarkets generally have higher capital costs and a more labour intensive format than discounters. Therefore, compared to discounters, most products at supermarkets are more highly priced and supermarkets tend to target higher income customers.

Discounters

Discounters are stores which offer a more narrow range of products than would be found in a standard supermarket and operate with price as a key component of their customer offer. According to IGD’s classification, there are two key types of discounters – the “hard” discounter and the “soft” discounter.

Hard discounters are characterised by a limited product range (fewer than 1,500 SKUs, most of which do not require chilling or freezing), small floor space, a basic store environment and low staffing levels. The hard discounter’s product range can only account for 50 to 75 per cent. of the product range of a “conventional supermarket”, therefore necessitating “top-up shopping” elsewhere.

Soft discounters usually have an extended product range (up to 4,000 SKUs); fresh, chilled and frozen products; larger floorspace (up to 1,500 sq. m.) and, compared with a hard discounter, a more presentable store environment. A soft discounter can cater for approximately 90 per cent. of a “conventional supermarket”.

There are four discounters among the top ten food distributors in Russia: the Company, Magnit, Dixi and Kopeika. Magnit operates relatively small hard discount stores located predominantly in small cities in Southern Russia and, although it has a limited presence in both Moscow and St. Petersburg, focuses on expansion in the Russian regions. Dixi is a hard discounter, which, at the end of 2004, had 66 stores in the Moscow area and 60 stores in St. Petersburg. Kopeika pursues a low price strategy based on a limited number of SKUs. At the end of 2004, Kopeika operated 53 stores in Moscow’s high-density residential areas (in some cases in proximity to the Company’s stores). See “Business – Competition”.

Major international operators

As at 31 December 2004, three out of the top ten grocery retail distributors in Russia were international operators – Metro, Ramstore and Auchan.

Foreign grocery retailers have to date mainly opted to develop large-space outlets – hyper-markets and cash & carry (Metro, Auchan, Ramstore and AVA) or supermarkets (Ramstore, Rewe and Spar), which are not market segments in which the Company operates. There are still no Western discounters in Russia, and none of the leading international participants in the sector (Aldi, Lidl and Dia) has to date publicly expressed an interest in entering Russia, in contrast to Poland where five Western operators dominate the discount segment. The management of the Company believes that this may be due to a number of factors, including the shortage of

suitable retail properties, difficulty of obtaining quality sites for development, shortage of reliable contractors and an insufficiently developed supply infrastructure. The Russian retail market, which the management of the Company believes is currently characterised by relatively low wages, high capital costs, high market fragmentation and a low level of development of private label goods, does not, in the view of the management of the Company, present an environment in which major international hard discounters tend to succeed.

Market fragmentation

The Russian grocery retail market remains highly fragmented, with the top three grocery retailers accounting for approximately 3 per cent. of total grocery retail sales in Russia.

Recently there has been some acquisition activity in the grocery retail sector in Russia, such as Perekriostok's acquisition of seven Spar Middle Volga's stores in December 2003 and Rewe's acquisition of Prodmak (16 stores) in early 2005. The acquisitions to date have been relatively small in terms of the market value of the business acquired. IGD has estimated that substantial market consolidation is likely to begin in 2008, as major market participants decide to consolidate their market positions. However, due to the size of the market and the large distances between major cities, the management of the Company believes that it will be at least several years after 2008 before the Russian grocery retail industry reaches a stage of significant consolidation.

BUSINESS

Overview

Pyaterochka is the largest grocery retailer in Russia in terms of sales and as at 31 December 2004 operated a chain of 235 stores, of which 124 stores were located in the Moscow area and 111 stores were located in the St. Petersburg area. In addition, the Group's franchisees operated 207 stores under the Pyaterochka brand in the Russian regions outside the Moscow and St. Petersburg areas and in the neighbouring countries of Kazakhstan and Ukraine as at 31 December 2004. For the year ended 31 December 2004, the Group had total revenue of approximately US\$1.1 billion and its customers made over 196 million visits to the Group's stores. In 2004, the stores operating under the Pyaterochka brand had gross banner sales approaching US\$1.6 billion.

Pyaterochka's stores are "soft" discount stores, open seven days a week from 9am to 10pm, offering up to 3,500 products that cover the day-to-day needs of customers, including food and non-food products, fresh produce and perishables. The average size of the Group's stores is approximately 1,000 square metres, with a selling area of approximately 620 square metres.

The management of the Company believes the key factors underlying the appeal of the Group's stores to customers are:

- Convenient store location;
- Competitive prices; and
- Well-chosen range of products.

Throughout its history, Pyaterochka has positioned itself as a value-focused retailer committed to being competitive on price. A series of independent price surveys conducted in 2003 and 2004 demonstrated that a consumer basket of products most-often purchased by customers in Russia had been consistently less expensive at the Group's stores than at conventional supermarkets.

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

History

The Group's business was founded by Andrei Rogachev and Alexander Girda in St. Petersburg in 1998 using the human resources and operational support of two food wholesale operations: LEK Trading House (specialising in the wholesale import of high quality dairy products) and United Food Company (specialising in the wholesale import of canned food products). The 1998 financial crisis in Russia adversely affected many of their wholesale customers and the management of the two companies decided to establish a discount grocery retail chain that would also provide another sales channel for their products.

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

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

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

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

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

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

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

Key strengths

The management of the Company believes that Pyaterochka's business model is well suited to help the Group retain and strengthen its leading position in the Russian grocery retail market and that the Group has the following key strengths:

Leading position in the most attractive retail markets of Russia – Pyaterochka is the largest grocery retailer in Russia in terms of sales. The Group operates in the regional markets with the highest concentration of purchasing power in Russia, the Moscow area and the St. Petersburg area, which together account for approximately one third of all retail sales in the country.

Cost leadership – Powerful purchasing – The management of the Company believes that the Group's high volume of sales from a limited range of products allows Pyaterochka to negotiate favourable terms from its suppliers and thus offer lower prices to its customers.

Cost-efficient logistics – Pyaterochka runs its own logistics operations. It operates a modern distribution centre in St. Petersburg, which the management of the Company believes enables the Group to supply its stores in a cost-efficient manner. The Group is building a distribution centre to service its stores in the Moscow area and planning the expansion of Pyaterochka's distribution facilities in St. Petersburg.

Significant share of private label goods sales – The Group is currently a leader in the sale of private label goods in Russia, with sales of private label goods representing approximately 9 per cent. of the Group's revenue in 2004. The management of the Company believes that, due to the absence of the marketing and advertising component in their cost, the sales of private label goods generally results in higher margins to the Group than sales of branded products.

Extensive expertise in managing growth through land rights acquisition and efficient store development – The management of the Company believes that having stores in key locations is essential to the success of the Group. Pyaterochka's store development team has expertise in acquiring rights to desirable land sites and properties at reasonable cost, enabling the Group to obtain approximately 20 to 30 land sites a year and giving it a land bank for store development in Russia. In addition, the management of the Company is experienced in building relatively small stores to a standardised design. It has assembled certain third-party contractors and design firms in St. Petersburg, who have worked, and is in the process of selecting contractors in Moscow who will work, with the Group to develop stores. These contractors have developed approximately 20 stores for the chain in 2004. In the Russian market, where there is a shortage of reliable contractors able and willing to build small stores to high standards, the management of the Company believes that the Group's relationships with these contractors gives the Group a competitive advantage and should allow it to continue to add new stores to the chain.

Strong operational and financial performance – Despite having been in business for only six years, the Group has achieved operating performance indicators and financial results that compare favourably with those of some of the leading European grocery retailers in the discount format.

Experienced management team and well trained workforce – The management of the Company has within six years built a leading Russian discount grocery retailer which reached total revenue of approximately US\$1.1 billion for the year ended 31 December 2004. Most of the senior management team have been with the Group since the inception of its business and accumulated valuable expertise in developing and managing it. The majority of Pyaterochka's employees go through a rigorous in-house training programme.

Strategy

Pyaterochka's strategy is to maintain profitable growth in the discount segment of the Russian grocery retail market by focusing on its core regional markets, as well as expanding into other Russian regions and neighbouring countries through acquisitions and franchising. The management of the Company intends to enhance further the Group's profitability by increasing the proportion of private label goods in Pyaterochka's product range and by using its increased purchasing power to achieve further cost efficiencies.

Organic growth in the core markets – The Group intends to continue the aggressive rollout of new stores in its core markets – the Moscow area (including Moscow as well as the Moscow oblast) and the St. Petersburg area. These markets have an aggregate population of more than 23 million people and account for more than one third of total Russian retail sales. In Moscow, which the management of the Company believes accounts for 22 per cent. of Russia's total grocery retail sales and will remain a key market for Pyaterochka, the Group has plans to increase the number of its stores from 115 (as at 31 December 2004) to 500 by the end of 2012. The Moscow oblast, which has a growing population of more than six million people, does not have many by modern grocery retail formats and therefore the management of the Company believes represents a particularly attractive growth opportunity for Pyaterochka's business. The management of the Company intends to increase the number of the Group's stores in the Moscow oblast from nine (as at 31 December 2004) to 250 by the end of 2012 and believes that a modern distribution centre being built approximately 10km away from Moscow should improve the efficiency of the Group's logistics operations in the Moscow area. In the St. Petersburg area, which has a population of more than six million and accounts for approximately 4 per cent. of total Russian grocery retail turnover, the management of the Company has plans to increase the number of the Group's stores from 111 (as at 31 December 2004) to 250 by the end of 2012 and, by the end of 2005, to expand its newly built distribution centre. The management of the Company believes that the Group's land bank and their store development expertise will assist Pyaterochka's planned expansion in its core markets.

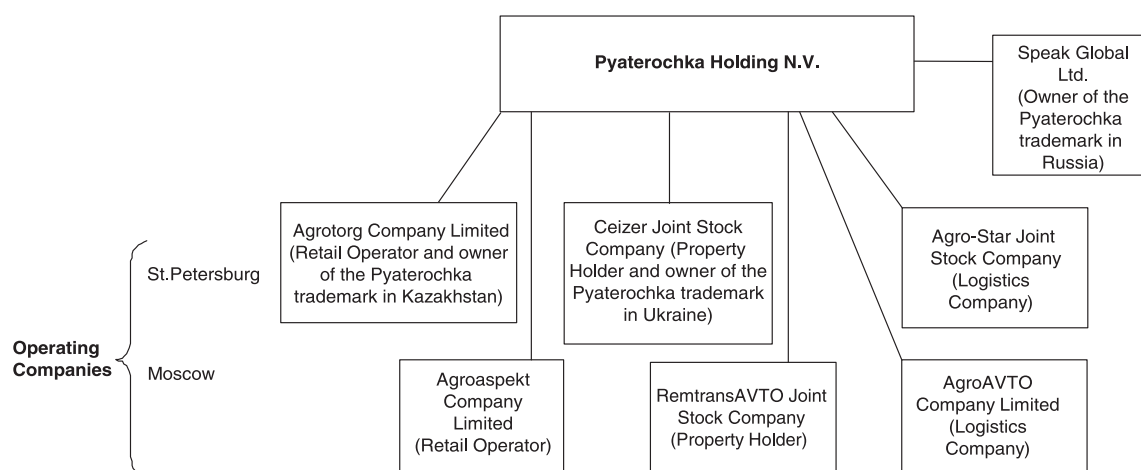
Regional expansion – In addition to focusing on its core markets, Pyaterochka intends to continue the development of its franchise network in the Russian regions and neighbouring countries. The Group intends to have a presence in at least 30 out of 89 Russian regions by the end of 2008, and in the longer term to expand significantly its existing franchise network in Kazakhstan and Ukraine, as well as establish a franchise operation in Belarus. The management of the Company believes that the expansion of Pyaterochka's franchise operations will increase the Group's purchasing power with suppliers, strengthen the recognition of its brand and enable the Company, where feasible, to expand its own store network by purchasing interests in the operation of some of its franchisees.

Acquisitions – In addition to growing organically, the Group may consider selective acquisitions of Russian grocery retailers or their retail assets, taking advantage of the highly fragmented nature of the Russian grocery retail market. In February 2005, the Company, through a member of its Supervisory Board, sent a letter to certain shareholders of Kopeika (see “– Competition”), which together held approximately 50 per cent. of Kopeika's issued share capital at the time, expressing a willingness to purchase their shares, as well as the shares of any other shareholders of Kopeika. The letter did not specify any time limits of such offer or any other conditions attached to it. As at the date of this Offering Circular, none of the addressees or any other shareholders of Kopeika had accepted the offer.

Increased use of private label goods – Pyaterochka is currently a leader in the sale of private label goods in Russia. In the longer term, the management of the Company is planning to increase the percentage of private

label goods sales to 50 per cent. of the Company's total revenue. The management of the Company believes that the use of private label goods will give the Group a cost advantage over its competitors and increase its profitability.

Corporate structure



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

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

Operations and stores

General

As at 31 December 2004, the Group operated 235 stores in the Moscow and St. Petersburg areas. In addition, 207 stores under the Pyaterochka brand were operated by the Group's franchisees as at 31 December 2004.

Retailing format

The management of the Company believes that the key factors underlying the appeal of the Group's stores to customers are convenient store location, competitive prices and a well-chosen range of products.

Convenient Store Location – The management of the Company believes that convenient store location is a key factor in ensuring Pyaterochka's continued success. Due to the combination of the relatively low car ownership prevalent in Russia, the relatively cold climate and the relatively small apartments in which many of Pyaterochka's target customers live, the Group seeks to locate its stores in convenient neighbourhood locations in densely populated residential areas, enabling customers to shop frequently and without having to travel long distances. According to a study conducted by GfK, a market and social studies institute, in February to March 2004, convenient store location was one of the key factors in determining the food shopping preferences of 66 per cent. of Moscow's residents.

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

sold at the average price of Pyaterochka's direct local competitors. A series of independent price surveys conducted in 2003 and 2004 demonstrated that a consumer basket of the products most-often purchased by customers in Russia has been consistently less expensive at the Group's stores than at conventional supermarkets. According to a GfK study, price is the second most important factor in determining the food shopping preferences of 54 per cent. of Moscow's residents.

Well-chosen product range – Pyaterochka positions itself as a soft discounter, offering a product range of up to 3,500 products, most of which are food products. In 2004, non-food items comprised approximately 12 per cent. of Pyaterochka's product range and approximately 10 per cent. of its revenue, and fresh produce comprised approximately 25 per cent. of Pyaterochka's revenue.

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

The management of the Company regularly benchmarks the success of Pyaterochka's retailing format against the operations of some of the leading international discounters. With an average store size of 1,000 square metres in 2004, a selling area of approximately 620 square metres and annual revenue per square metre in 2004 of US\$10,646 at mature stores, the management of the Company believes that Pyaterochka's retailing format is well suited to fulfil the day-to-day needs of Russian consumers.

Development of new stores

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

Pyaterochka has development teams for each of the two core regional markets in which the Group operates (the Moscow area and the St. Petersburg area), which are responsible for store development and are part of the Group's central management (for a discussion of the Group's central management structure, see "Description of Share Capital and Corporate Structure"). Each development team's primary task is the acquisition of land sites and development of new stores in sufficient numbers and suitable locations. The Group's development teams have accumulated considerable expertise in site acquisition, which beginning from 2003, has enabled the Group to acquire 20 to 30 land sites per year, which the management of the Company believes currently is the highest rate of site acquisition in the Russian grocery retail industry.

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

Pyaterochka's team of construction supervisors is responsible for the construction of newly built stores. The management of the Company believes that this team will be able to supervise the timely construction of at least 15 new stores a year in each of the St. Petersburg and Moscow areas.

The Group's expansion programme envisages that, by the end of 2012, Pyaterochka will have a total of 500 stores in Moscow (of which 200 will be newly built), 250 stores in the Moscow oblast (of which 120 will be newly built) and 250 stores in the St. Petersburg area (of which 120 will be newly built). In 2005, Pyaterochka intends to open 20 new stores in the St. Petersburg area (of which 15 will be newly built) and 50 new stores in the Moscow area (of which three will be newly built).

Real estate

Initially, almost all of Pyaterochka's stores operated on premises leased from third parties, which, in the view of the management of the Company, allowed the fastest roll out of the store chain. Subsequently, Pyaterochka began opening stores on premises under its ownership and building its own purpose-built stores. Whilst the management of the Company believes that, historically, the use of leased retail space has been less capital-intensive and has required less time for store rollout, it also believes that the use of own and, in particular, purpose-built stores results in a more efficient use of retail space and leads to greater financial and operational security and affords the Group higher revenue per square metre of retail space.

As at 31 December 2004, the Group operated 235 stores in the Moscow and St. Petersburg areas, most of which were leased from third parties. However, the share of the owned stores (bought and purpose built) is growing. The table below shows the respective shares of the leased and owned stores among the stores operated by Pyaterochka (as a percentage of the total number of stores) as at 31 December 2004:

	Leased stores	Owned stores
	(Per cent. of the total number of stores)	
Moscow area	65	35
St. Petersburg area	51	49
Total for the chain	59	41

With respect to leased stores, the Group's current policy is to have lease terms of five to ten years. As at 31 December 2004, the Group's store chain included 28 stores with unexpired lease terms of less than one year (17 in the Moscow area and 11 in the St. Petersburg area). Rents are re-negotiated once every 12 months and adjusted in line with current market rates. The terms of leases provide that, other than the rent, no other terms of an unexpired lease may be revised.

The management of the Company believes that Pyaterochka has a good reputation as a tenant in both the Moscow and St. Petersburg areas, and this has helped it to negotiate favourable lease terms and renew leases on expiry. In the history of the Group, there have been 10 leased store closures, of which four were due to the non-renewal of leases by the Group as a result of opening new stores nearby and one was due to the Group's inability to agree an acceptable rent adjustment with the landlord on renewal.

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

To support its store construction programme, the Group has built up a land bank, by acquiring rights (mostly leasehold) to sites where store construction is intended. As at 31 December 2004, the Group had rights to 51 land sites designated for new store construction, on 17 of which construction was underway.

Product range

The Group's product range consists of approximately 3,500 items, over 90 per cent. of which are produced in Russia. The management of the Company believes that the high percentage of domestically produced items in the range provides the Group with an advantage in terms of lower logistics costs and transportation costs over those other grocery retailers that offer a higher percentage of imported goods in their range. Food products comprise approximately 88 per cent. of Pyaterochka's product range and their sales represent 90 per cent. of Pyaterochka's revenue. Most of the Group's product range comprises fast selling food products and beverages. Fresh and perishable products represents approximately 25 per cent. of Pyaterochka's revenue.

The table below shows a breakdown of the Group's revenue by product category for the year ended 31 December 2004:

Category	Per cent. of total revenue, for the year ended 31 December 2004
Milk/dairy	17
Meat	15
Alcohol	11
Non-food	10
Fruit and vegetables	9
Confectionary/bakery	8
Dry goods	6
Other	24

The Group views the development of private label goods as significant for the continuing success of its business. Pyaterochka's first own-label products were introduced in 2001. As at 31 December 2004, the Group's private label goods, which accounted for 9 per cent. of the Group's revenue, included approximately 200 SKUs of mostly food items developed in co-operation with approximately 150 manufacturers. Pyaterochka focuses its development of private label goods primarily on fast selling, non-perishable and medium-length shelf-life food products (such as pasta and pancakes) and beverages (such as vodka and carbonated soft drinks). There are also a number of non-food items sold under private label goods.

The management of the Company believes that most of the Group's private label foods match branded products in terms of quality, and in certain cases, exceed them in terms of product design, while being priced at an average discount of 15 per cent. to them. In 2004, some of Pyaterochka's own labels, such as Pyaterochka Cola, outsold the equivalent brand leaders in Pyaterochka's stores. The Group also offers a number of basic staple products under its own label (such as bread, milk, pasta and cereals) at price levels which the management of the Company believes ensure that these products are the lowest priced in the entry-level category of KVIs.

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

Pyaterochka has plans to increase the percentage of private label goods sold to 50 per cent. of total revenue by 2008.

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

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

Pricing

The Group positions itself as a value-focused retailer that is competitive on price. The Group's pricing policy is aimed at attracting new customers and retaining existing ones. Pyaterochka aims to ensure that 150 KVIs are sold at the lowest price available in the relevant regional retail market, with the remaining products sold at the average price offered by Pyaterochka's direct competitors in the local market. The management of the Company believes that this results in the average basket of frequently purchased items being less expensive at Pyaterochka's stores than at those of most other grocery retailers.

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

Marketing and customers

Marketing

The objective of the Group's marketing and advertising activities is to attract and retain customers, improve brand awareness, engender customer trust in the quality of Pyaterochka's products and promote Pyaterochka's private label goods. In 2004, the Group's annual marketing and advertising expenses amounted to approximately 0.8 per cent. of the Company's total revenue.

The Group's marketing and advertising campaigns focus on communicating key messages to its customers. Pyaterochka's campaigns include:

- "Pyaterochka – best prices" marketing campaign involving the weekly lowering of prices on 40 to 50 most popular items by 25 per cent., which is marketed through the distribution of flyers and through radio advertising.
- Advertisements for the most attractively priced and popular items in mass circulation newspapers.
- The weekly "Lucky purchase" marketing campaign – the lowering of prices on six to eight items (mostly non-food) by approximately 25 per cent. from the minimum price available in the relevant geographic area. The items are placed at the store entrance and emphasise the attractiveness of the prices in the Group's stores.
- "Favourite customer" loyalty programme – Membership in the programme is acquired for a nominal amount (to cover the costs of running the programme) and entitles customers to discounts of 5 to 20 per cent. on approximately 300 selected items, mostly private label goods. The programme was launched in December 2004 in a store trial and the management of the Company expects that, by the end of 2005, it will be rolled-out throughout the chain. The management of the Company expects the programme to increase sales of private label goods and customer loyalty without eroding Pyaterochka's operating margins.
- Special price tags indicating private label goods.
- Advertising on TV.

The Group's advertising focuses on competitive prices and high quality products. Contact details of the Group's own quality control bodies, as well as those of the municipal customer protection agencies, are prominently displayed in all of the Group's stores. The Group offers an unconditional money back guarantee on all products sold at Pyaterochka's stores, with no production of receipts required.

The management of the Company believes that the Group's marketing and advertising efforts have helped make its brand one of the most recognisable among retailers in Russia.

Customers

According to a study by TNS, a market information group, carried out between 11 November 2002 and 30 April 2004, spontaneous customer awareness of Pyaterochka brand varied between 70 per cent. and 90 per cent. in St. Petersburg and between 50 per cent. and 60 per cent. in Moscow. The management of the Company believes that the high customer awareness levels in St. Petersburg can be attributed to Pyaterochka's more prominent position there, as well as the fact that the Group started its operations in St. Petersburg in 1999 and only expanded into Moscow in 2001.

According to a customer survey conducted in December 2004 by the *Profil* magazine (published in association with Business Week), Pyaterochka was the most widely recognised Russian food chain.

The management of the Company believes that the Group's customers tend to be frequent shoppers. According to TNS, in Moscow, 42 per cent. of the Group's customers visit its stores at least twice a week and 65 per cent. at least once a week. In St. Petersburg, these percentages are 50 per cent. and 72 per cent., respectively.

An average Pyaterochka store has 2,650 customers visiting the store per day. The Group estimates that the average purchase value per visit in 2004 was approximately US\$6.

Suppliers and purchasing

The management of the Company believes that, as the largest grocery retailer in Russia in terms of sales, Pyaterochka is one of the most significant clients to many suppliers, including multinational fast moving consumer goods ("FMCG") companies. The management of the Company believes that its purchasing power allows the Group to negotiate favourable supply terms, with Pyaterochka's history of paying its suppliers on time (which is not always the case in the industry) being an additional negotiating strength. A significant portion of Pyaterochka's revenue is generated by a relatively limited number of products, which the management of the Company believes further strengthens its purchasing power with suppliers. Although the Group has been able to increase the payment deferral terms agreed with suppliers from 20 days in 2002 to 34 days in 2004, the management of the Company believes that the Group compares favourably, in a market where some leading international grocery retailers demand payment deferral terms of 45, 60 or even 90 days.

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

Within the Group's centralised management structure, purchasing is the responsibility of two purchasing teams (one for the Moscow area and one for the St. Petersburg area). Within each purchasing team, individual purchasing managers are responsible for specific product lines, with their compensation being directly linked to the contribution of their product lines to the Group's gross margin.

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

With approximately 250 active suppliers to the Group in 2004, the Group's supplier base remains diversified. In 2004, products acquired from Pyaterochka's 10 largest suppliers accounted for less than 5 per cent. of Pyaterochka's revenue. About 90 per cent. of the Group's range is produced in Russia (including by multinational companies with operations in Russia), which the management of the Company believes enables easier logistics and lower transportation and handling costs.

Inventory management, warehousing and distribution

The management of the Company believes that Pyaterochka's inventory levels are among the lowest in the industry, with the average inventory turnover (the number of days during which the Group's inventory is sold in full) standing at 16 days. Pyaterochka's information and logistics systems ensure prompt stock replenishment.

The management of the Company believes that profitable growth of the Group's business requires modern warehousing and logistics arrangements. Pyaterochka has recently built a 10,500 square metres consolidated warehouse/distribution centre in St. Petersburg. It is equipped with a modern warehouse management system, which the management of the Company believes enables Pyaterochka to increase the efficiency of its operations and accommodate the increased demand resulting from the opening of new stores. The Group is also planning to expand its distribution capacity by adding another 9,000 square metres to its distribution centre in St. Petersburg (completion expected in 2006), building another St. Petersburg distribution centre with a size of approximately 20,000 square metres (completion expected in 2007), as well as building a new distribution centre in the Moscow area, approximately 10 kilometres outside of Moscow (the first phase of 30,000 square metres is expected to be completed in 2006, with a subsequent expansion to 50,000 square metres expected in 2007). In the light of these distribution capacity expansion plans, by 2008 the Group expects to be able to supply directly from distribution centres approximately 75 to 80 per cent. of its deliveries in both the Moscow area and the St. Petersburg area. The management of the Company expects that this expansion, if achieved, should have a further positive effect on the Group's cost of sales and selling, general and administrative expenses.

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

Orders made by the stores are delivered either from the Group's distribution centres or directly from the suppliers. In 2004, deliveries from the Group's distribution centres accounted for approximately 35 per cent. of all deliveries to the Group's stores in the Moscow area and approximately 50 per cent. of all deliveries to the Group's stores in the St. Petersburg area.

The Group aims to have 75 to 80 per cent. of its supplies delivered from its own distribution centres by the end of 2008. On the basis of the cost savings achieved through the opening of the new distribution centre in St. Petersburg, the management of the Company estimates that the introduction of a modern distribution centre in the Moscow area should reduce the Group's transportation and delivery costs in that area by up to 40 per cent.

Franchise operations

The Group uses franchise agreements to expand into the Russian regions beyond Pyaterochka's core markets, as well as into neighbouring countries. As at 31 December 2004, the Group's franchisees operated 207 stores under the Pyaterochka brand in 10 Russian regions outside the Moscow and St. Petersburg areas, as well as in the neighbouring countries, Kazakhstan and Ukraine.

The use of franchise arrangements (as opposed to opening its own stores) allows the Group to concentrate its operational, financial and management resources on its core markets whilst enabling expansion into other areas. The management of the Company also believes that the use of franchise arrangements is preferable to opening stores in areas outside of Moscow and St. Petersburg due to the likely unavailability of logistics and warehousing infrastructure of the kind used by the Group in its core markets, which would make the profitability of the Group's own operations in these areas uncertain. Franchisees also contribute local expertise and knowledge of local market conditions. In addition, the use of franchise agreements allows the Group to increase its purchasing power (as the Group's franchisees are given access to the Group's supply and purchasing channels thereby increasing the attractiveness of the stores operated under the Pyaterochka brand (both Group run and franchised) for the suppliers) and strengthen the recognition of the Pyaterochka brand without significant capital expenditure by the Group.

Pyaterochka appoints one franchisee per Russian region outside of the Group's core markets. As at 31 December 2004, the management of the Company believes that the Group had the largest franchise network in Russia among grocery retailers. The Group is a party to 16 franchise agreements, with 12 franchisees (with a total of 207 stores) already in operation and the other four expected to become operational by the end of 2005. Of the 16 franchise agreements to which the Group is a party, eight (relating to Omsk, Samara, Almaty and Kharkov) have not taken full legal effect pending registration with the relevant tax and patent authorities. The table below shows the franchised store networks in operation as at 31 December 2004:

<u>Location</u>	<u>Number of stores</u>
Russia	
Voronezh	17
Chelyabinsk	23
Perm'	20
Ufa	27
Ekaterinburg	17
Ulyanovsk	25
Saratov	13
Volgograd	36
Omsk	10
Samara	4
Kazakhstan	
Almaty	13
Ukraine	
Kharkov	2
Total	207

The Group selects franchisees among businesses operating in the relevant area which, in the view of the management of the Company, have a solid business reputation, sufficient financial resources, good relations with the local authorities, sufficient experience in the local grocery retail market and the willingness to contribute to the Group's expansion as its franchisees. The Group interviews franchisee candidates and seeks information from market research and other third-party information sources.

Selected franchisee candidates are required to enter into a franchise agreement with a term of approximately 10 years, in which the Group agrees to grant them rights to use its trademark, IT systems, business processes, as well as to provide them with access to Pyaterochka's know-how, supply and purchasing channels. Pyaterochka trains the key personnel of its franchisees at its employee training centre in St. Petersburg and sends a launch team to assist with the start up of operations and provide advisory assistance until their operations are well established. In return, each franchisee agrees to make an upfront, one-time payment to the Group which, for most agreements entered into in 2004, varied between US\$750,000 and US\$1,000,000 (depending on the terms agreed with the relevant franchisee) and pay to the Group a monthly fee equal to between 1.30 and 1.85 per cent. of the franchisee's consolidated gross turnover.

In order to align its commercial interests more closely with those of its franchisees, the Group intends to purchase, where possible, equity interests of approximately 25 per cent. of the equity capital in each of its franchisees. Although the existing franchise agreements do not provide the Group with an express contractual right to purchase such equity interests, the Group is currently in discussions with several of the Group's existing franchisees with a view to acquiring such interests commencing in 2006. In addition, the Group intends that the form of the franchise agreement into which the Group's future franchisees will be expected to enter will provide for the Group's contractual right to purchase equity interests in such future franchisees of approximately 25 per cent. of such franchisees' equity interest at a purchase price equal to the net assets of such franchise multiplied by the percentage of the acquired equity interest.

The Group's expansion programme envisages that, by the end of 2012, the number of franchise stores operating under the Pyaterochka brand in the Russian regions and neighbouring countries (including Kazakhstan, Ukraine and Belarus) will reach approximately 1,200.

Competition

The management of the Company believes that as at 31 December 2004 there were three major direct competitors of the Group among the top ten food distributors in Russia: Magnit, Dixi and Kopeika.

Magnit, operated by Tander, represents the largest store portfolio of any retailer in Russia. The company operates small (350 square metres), hard discount stores. While it had 16 stores in Moscow and 10 stores in St. Petersburg at the end of 2004, it focuses on expansion in the Russian regions and has its stores located predominantly in small cities in Southern Russia.

Dixi is a hard discounter, which at the end of 2004 had 66 stores in Moscow and the Moscow area and 40 stores in St. Petersburg. Limited information is available about Dixi's operations and financial results. Dixi's product range (mostly consisting of grocery items that do not require chilling or freezing) is narrower than that of the Group.

Kopeika pursues a low price strategy, based on a limited number of SKUs. Its product range consists of 2,500 SKUs including a number of house brands, with 80 per cent. representing food items. The management of the Company believes that Kopeika is currently the tenth largest grocery retailer in Russia with estimated sales of US\$364 million in 2004. At the end of 2004, it operated 53 stores located in densely populated residential areas outside Moscow's city centre and, in certain areas, in proximity to Pyaterochka stores.

As at the end of 2004, three out of the top ten grocery distributors in Russia were international operators – Metro, Ramstore and Auchan. Foreign grocery retailers so far have mainly opted to develop large-space outlets – hypermarkets and cash & carry stores (Metro, Auchan, Ramstore and AVA) or supermarkets (Ramstore, Rewe and Spar), which are not market segments in which the Company operates. There are still no Western discounters in Russia, and none of the leading international players in the sector (Aldi, Lidl and Dia) have, so far as the management of the Company is aware, publicly expressed an interest in entering Russia, in contrast to Poland where five Western operators dominate the discount segment. The management of the Company believes that this may be due to a number of factors, including the shortage of suitable retail properties, difficulty of obtaining quality sites for development, shortage of reliable contractors and underdeveloped supply infrastructure. The Russian retail market, which the management of the Company believes is currently characterised by relatively low wages, high capital costs, high market fragmentation and a low level of development of private label goods, does not, in the view of the management of the Company, present an environment in which major international hard discounters tend to succeed.

Information technology

Pyaterochka uses IT systems to support its day-to-day operations and the growth of its business. The Group uses hardware developed by the world's leading manufacturers and software developed by Microsoft and Oracle. Like many leading international grocery retailers, Pyaterochka has developed in-house software including its enterprise resource planning ("ERP") system. In-house developed software represents approximately 95 per cent. of the software used by the Group. Use of the Group's own ERP system facilitates alignment with its business

processes and delivers flexibility and scalability, complemented by low development, upgrade and maintenance costs and preservation of sensitive data.

Where considered necessary, the Group uses software developed by third parties. In particular, the Group's new distribution centre in St. Petersburg is equipped with WMS Exceed 4000, a modern warehouse management system that the management of the Company believes enables Pyaterochka to increase the efficiency of its operations and cater for the increased demand resulting from the opening of new stores.

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

IP rights and key trademarks

Under the laws of Russia, the main market in which Pyaterochka operates, the right to use a trademark is acquired upon the trademark's registration with the Russian Federal Service for Intellectual Property, Patents and Trademarks (the "Russian Patent Agency"). Speak Global holds the "Пятерочка" (Pyaterochka in Cyrillic) trademark in Russia (No. 188253). This trademark was registered with the Russian Patent Agency with priority from November 1998. In June 2004, the Group signed an agreement with United National Financial Corporation, a company organised under the laws of the British Virgin Islands, in relation to the assignment of two other trademarks containing the word "Pyaterochka" in Cyrillic (No. 206576 with priority from December 1999 and No. 268528 with priority from October 2002) to the Group. This agreement has yet to be registered with the Russian Patent Authority and therefore has not come into force. The management of the Company expects that these trademarks (which are currently owned by United National Financial Corporation) will be transferred to the Group by the end of 2005.

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

The group holds several trademarks such as "Пятерочка", "Пятёрочка", "Бестік", registered with patent authorities in Kazakhstan and a trademark "П'ятірочка" registered with patent authorities in Ukraine and a trademark "Пяцёрочка" registered with patent authorities in Belarus.

Insurance

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

Employees

The average number of employees in the Group (including those working for the Group on the basis of outsourcing arrangements) for the years ended 31 December 2004, 2003 and 2002 was 11,559, 11,027 and 7,793, respectively. In 2004, 50 per cent. of the Group's employees were based in St. Petersburg and 48 per cent. were based in Moscow. In 2002 and 2003, these figures were 73 per cent. and 27 per cent., and 54 per cent. and 46 per cent., respectively.

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

Legal proceedings and investigations

The Group has not been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the management of the Company is aware) which may have or have had in the past twelve months from the date of this Offering Circular a significant effect on the Group's financial position.

Subsidiaries

The details of the Operating Companies and of Speak Global are set out in the table below:

Subsidiary	Country	Company's shareholding	Activities	Address of registered office
Agrotorg Company Limited	Russia	100	Retail operations in St. Petersburg and owner of several trademarks in Kazakhstan and Franchisor in all franchise agreements	90/92 Nevsky prospect, St. Petersburg 19102 Russia
Ceizer Joint Stock Company	Russia	100	Property ownership and letting in St. Petersburg, owner of a number of trademarks in Russia and "П" trademark in Ukraine	Lit. A pom. 3N 13 Tambovskaya ul. St. Petersburg 192007 Russia
Agro-Star Joint Stock Company	Russia	100	Logistics (St. Petersburg)	8 Predportovaya ul. St. Petersburg 196240 Russia
Agroaspekt Company Limited	Russia	100	Retail operations (Moscow)	60 Altufievskoye chaussee Moscow 127562 Russia
RemtransAVTO Joint Stock Company	Russia	100	Property ownership and letting (Moscow)	11 Amundsena ul. Moscow 129343 Russia
AgroAVTO Company Limited	Russia	100	Logistics (Moscow)	27 Leningradsky prospect Moscow 125040 Russia
Speak Global Ltd.	Cyprus	100	Owner of Pyaterochka trademark in Russia	Arch. Makariou 111 62 Xenios Commercial Centre 6th Floor Flat/office 603 P.C. 1076 Nicosia Cyprus

SELECTED FINANCIAL INFORMATION

The following selected financial information sets out selected combined and consolidated financial data for the Group as at and for the years ended 31 December 2004, 2003 and 2002 which are extracted without material adjustment from the Financial Statements. The Financial Statements appear in “Financial Statements”. The selected financial information should be read in conjunction with such Financial Statements (including the notes thereto) as well as with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

The Financial Statements have been prepared on the basis of IFRS. See “Summary of Certain Differences Between IFRS and US GAAP” and Note 2 to the Financial Statements set forth in “Financial Statements”.

	As at and for the year ended 31 December		
	2004	2003	2002
	(US\$ thousands, except per share amounts)		
Combined and consolidated income statement data			
Revenue	1,105,803	759,584	493,240
Cost of sales	(860,356)	(612,852)	(409,838)
	245,447	146,732	83,402
Gross profit			
Selling, general and administrative expenses	(148,444)	(101,747)	(51,078)
	97,003	44,985	32,324
Operating profit			
Finance costs, net	(3,736)	(1,170)	(1,452)
Other expenses, net	(427)	(1,577)	(778)
Net monetary gain	—	—	3,131
Foreign currency exchange gain	1,119	258	—
	93,959	42,496	33,225
Profit before income tax			
Income tax	(19,524)	(8,713)	(4,488)
Net profit	74,435	33,783	28,737
Earnings per share, basic and diluted, US dollar per share ⁽¹⁾	1.94	0.88	0.75
Combined and consolidated cash flow data			
Net cash provided by operating activities	107,780	71,360	43,699
Net cash used in investing activities	(131,555)	(70,994)	(52,888)
Net cash from financing activities	23,435	7,912	4,050
Combined and consolidated balance sheet data (end of period)			
Cash and cash equivalents	14,748	14,343	5,610
Total assets	415,647	246,652	135,013
Total debt (long-term and short-term)	74,647	23,068	9,427
of which long-term obligations under finance leases	3,546	1,412	—
Total liabilities	249,645	141,384	67,606
Total shareholders’ equity	166,002	105,268	67,407

Note:

(1) Earnings per share have been determined using the weighted average number of Ordinary Shares outstanding during the years ended 31 December 2004, 2003 and 2002. On average, there were 38,306,785 Ordinary Shares outstanding for each of the three years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Investors should read the following discussion and analysis together with the Company's Financial Statements and the notes thereto included in this Offering Circular. The Company's Financial Statements have been prepared in accordance with IFRS, which differ in certain significant respects from US GAAP. For a discussion of certain differences between IFRS and US GAAP as they relate to the Group, see "Summary of Certain Differences between IFRS and US GAAP".

The following discussion and analysis of the Group's financial condition and results of operations includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Offering Circular.

OVERVIEW

Pyaterochka is the largest grocery retailer in Russia in terms of sales and as at 31 December 2004 operated a chain of 235 stores, of which 124 stores were located in the Moscow area and 111 stores were located in the St. Petersburg area. In addition, the Group's franchisees operated 207 stores under the Pyaterochka brand in Russian regions outside the Moscow and St. Petersburg areas and in the neighbouring countries of Kazakhstan and Ukraine as at 31 December 2004.

For the year ended 31 December 2004, the Group had revenue of approximately US\$1.1 billion and its customers made over 196 million visits to the Group's stores. In 2004, the stores operating under the Pyaterochka brand had gross banner sales approaching US\$1.6 billion.

The Group's stores are "soft" discount stores, open seven days a week from 9am to 10pm, offering up to 3,500 products that cover the day-to-day needs of customers, including food and non-food products, fresh produce and perishables. The average size of the Group's stores is approximately 1000 square metres, with a selling area of approximately 620 square metres.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

New store openings

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

<u>Area</u>	<u>As at 31 December</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Moscow area	55	97	124
St. Petersburg area	80	92	111

Historically, the Group has expanded its store chain by leasing stores from third parties, as well as by purchasing existing stores from third parties or building new stores. In recent years, the share of stores that are newly built by the Group has been increasing. The following table presents the number of stores operated by the Group as at 31 December 2002, 2003 and 2004, presented by type (newly built by the Group, purchased from a third party or leased from a third party):

<u>Type of store</u>	<u>As at 31 December</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Built	6	10	21
Purchased	42	55	76
Leased	87	124	138

The Group's store expansion strategy has affected the Group's results of operations in each period under review by increasing revenue, cost of sales and selling, general and administrative expenses, thus making period to period comparison difficult. The Group's store roll-out programme also affected capital expenditure as compared to the relevant prior period. In 2004, the average cost to the Group of purchasing a store property was approximately US\$2.3 million in the Moscow area and approximately US\$1.5 million in the St. Petersburg area. In the same period, the average cost of building a new store (including any costs associated with the opening of the new store) was US\$1.3 million in the St. Petersburg area. The Group has not built any stores in the Moscow area. In 2004, the average annual rent payment made by the Group in respect of its leased stores was approximately US\$240 per square metre of store space in Moscow area and US\$120 per square metre of store space in the St. Petersburg area. The conversion costs associated with rolling-out a purchased or leased store amounted to an average of approximately US\$150,000 per store in the Moscow area and approximately US\$70,000 per store in the St. Petersburg area.

Macroeconomic trends

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

Expansion of the Group's franchise operations

The Group receives revenue from its franchisees as up-front, one-time payments and monthly fees under the franchise agreements (for a discussion of the terms of the Group's franchise agreements and payments made thereunder, see "Business – Franchise operations"). The first franchised stores under the Pyaterochka brand were opened at the end of 2002. The number of the Group's franchisees increased significantly in 2003 and 2004, with the number of franchised stores in operation under the Pyaterochka brand reaching 207 as at 31 December 2004. The increase in the number of the Group's franchise stores has resulted in an increase in payments received by the Group as up-front payments and monthly fees under the franchise agreements, which has contributed to the Group's revenue in 2003 and 2004.

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

Purchasing policies

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

Private label goods

The management of the Company believes that the Group is currently a leader in the sale of private label goods in the Russian grocery market, with sales of private label goods representing approximately 9 per cent. of the Group's revenue in 2004. The Company has plans to increase the percentage of private label goods it sells to 50 per cent. of its revenue by the end of 2008. Due to the absence of significant marketing and advertising components in the cost of private label goods, their increasing presence in the product range sold by the Group during the periods under review has had the effect of decreasing the Group's cost of sales and improving the Group's gross margin. According to the Group, the gross margin generated by private label goods is on average 7 per cent. higher than that generated by other branded goods sold in the Group's stores.

Improved warehousing and distribution

During the periods under review, the Group has been improving the efficiency of its warehousing and distribution arrangements by increasing the volume of deliveries to its stores from its distribution centres in St. Petersburg and Moscow, as opposed to direct from its suppliers. This has resulted in lower delivery costs and, consequently, affected cost of sales. In 2003, the Group built a 10,500 square meter consolidated warehouse and distribution centre in St. Petersburg. In Moscow, the Group currently uses three rented warehouses with a total space of 19,500 square metres. In 2004, deliveries via the Group's distribution centres represented 50 per cent. of all deliveries to the Group's stores in the St. Petersburg area, and 35 per cent. of all deliveries in the Moscow area. The management of the Company believes that the introduction and use of the Group's own newly built distribution capacity as opposed to rented warehouses has helped to reduce the Group's selling, general and administrative expenses by reducing costs incurred as rent for leased warehouses and wages for additional personnel employed to handle direct deliveries from suppliers to the Group's stores and to operate the leased warehouses.

The management of the Company expects that, beginning in 2005, the Group will require its suppliers delivering their goods to the Group's distribution centres (and not directly to the stores) to pay the Group a logistical bonus (in the form of a rebate offsetting the supply price or as a payment to the Group). Such bonuses, when introduced, are expected to have the effect of reducing the Group's cost of sales and increasing the Group's gross margin.

Seasonality

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

Effects of hyperinflationary accounting

Prior to 2003, Russia was deemed a highly inflationary economy based on the criteria set out in IAS 29 – Financial Reporting in Hyperinflationary Economies (“IAS 29”). IAS 29 requires the restatement of financial statements in terms of current monetary units if highly inflationary conditions exist in an economy. As of 1 January 2003, Russia's economy ceased to be regarded as a hyperinflationary economy under IAS 29. Therefore, since such date, the Group has ceased making the restatements set out in IAS 29 with respect to its Operating Companies. As a result, there is no monetary gain or loss for the years ended 31 December 2003 and 2004 in the Financial Statements.

TRENDS AND RECENT DEVELOPMENTS

The management of the Company expects that the factors that have affected the Group's results of operations in prior years will continue to affect the Group's results of operations in 2005, see "– Significant Factors Affecting Results of Operations".

The Group's store opening plans for 2005, which contemplate the opening of 20 new stores in the St. Petersburg area and 50 new stores in the Moscow area, should, if implemented, increase the Group's revenue, capital expenditure and cost of sales for the year ending 31 December 2005. During the first four months of 2005, the Group opened 11 new stores. In order to meet its target of 70 new store openings during 2005, the management of the Company intends to increase the rate of store openings through the remainder of 2005.

During the first three months of 2005, the Company experienced growth in revenue at a lower rate than that experienced in the same period of the previous year and lower than that experienced during the full year of 2004 compared to 2003. The growth in the Group's revenue during the first quarter of 2005, which resulted from an increased number of stores compared to the same period in the previous year, was partially offset by a number of factors, including (i) an extended public holiday in January 2005 (10 days) compared to January 2004 (2 days); (ii) certain price reductions that the Group introduced at the end of January 2005 in order to continue to offer competitive prices to its customers and enhance customer loyalty; and (iii) the Group's increasing focus on the share of private label items, which are offered at lower prices than branded products. As a result of the foregoing, while overall revenue increased during the first quarter of 2005 compared to the first quarter of 2004, the Group's like-for-like revenue was negatively impacted.

On the morning of 2 May 2005, the Group temporarily closed 109 stores in St. Petersburg due to nine cases of hepatitis A identified among its staff. The Group reopened 87 of the temporarily closed stores later that day, following anti-hepatitis screening procedures. By 5 May 2005, 55 cases of hepatitis A had been identified among the Group's staff. A third-party catering supplier unrelated to the Group delivering hot meals for the Group's staff was identified as the source of infection by the state health and safety authorities. The Group has terminated its relationship with the third-party supplier. The Group expects that the 22 stores remaining closed will reopen on or about 9 May 2005, once standard anti-hepatitis procedures conducted under the supervision of the state health and safety authorities in St. Petersburg (which include disinfection, staff vaccination and staff blood tests) have been completed. The management of the Company believes this to have been an isolated incident that should not have a material effect on the Group's annual revenue for 2005.

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

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

The Group has plans to expand its distribution capacity by adding another 9,000 square metres to its distribution centre in St. Petersburg (completion expected in 2006), building another St. Petersburg distribution centre with a size of approximately 20,000 square metres (completion expected in 2007), and building a new distribution centre in the Moscow area, approximately 10 kilometres outside of Moscow (first phase of 30,000 square metres expected to be completed in 2006, with a subsequent expansion to 50,000 square metres expected in 2007). As a result of these distribution capacity expansion plans, by the end of 2008, the Group expects to be able to supply directly from its distribution centres approximately 75 to 80 per cent. of its deliveries in both the Moscow area and the St. Petersburg area. The management of the Company expects that this expansion of the Group's distribution capacity, if achieved, should increase the efficiency of the Group's operations and have a further positive effect on the Group's cost of sales and selling, general and administrative expenses. Furthermore, on the basis of the cost savings achieved through the opening of the new distribution centre in St. Petersburg, the management of the Company estimates that the introduction of a modern distribution centre in the Moscow area should reduce the Group's transportation and delivery costs in that area by up to 40 per cent.

On 25 February 2005, the Company sent a letter to several shareholders of Kopeika, the operator of the Kopeika grocery retail chain (see "Business – Competition") containing an offer by the Company to purchase some or all of such shareholders' shares in Kopeika, as well as some or all of the shares of the other shareholders in Kopeika. The letter did not specify any purchase price, time limits for the acceptance of, or any other conditions relating to, the offer. As at the date of this Offering Circular, none of the shareholders of Kopeika had accepted the offer.

On 14 March 2005, the Group completed arrangements with respect to the transfer of assets and liabilities relating to the Shareholders' hyper-markets project. Also in 2005, the Group provided unsecured loans to the Carousel group for working capital purposes (see "Shareholders and Related Party Transactions – Related party transactions – Related party transactions relating to the Carousel project – Assets transfers between the Group and the Carousel group").

In March 2005, Speak Global became a wholly owned subsidiary of the Company. See "Shareholders and Related Party Transactions – Transfer of Speak Global".

On 31 March 2005, the issuance of Rouble-denominated bearer bonds of Pyaterochka Finance LLC, a 99.99 per cent. owned subsidiary of Agrotorg, was registered with the Federal Service for Financial Markets of the Russian Federation. The aggregate nominal value of the bonds amounts to RUR 1,500 million (approximately US\$54.1 million). The bonds will have a maturity of five years upon commencement of the placement and should be placed by open subscription conducted on the Moscow MICEX Stock Exchange. The rate of a coupon payable on the bonds will be determined through an auction conducted on the MICEX Stock Exchange. The proceeds of the bond issue are intended to finance the capital expenditures associated with the opening of new stores by the Group, as well as to refinance the Group's short-term borrowings. The placement is currently planned for May 2005. The bond issue is to be secured by irrevocable buy back offers from Agrotorg and the Company. Pursuant to the offers, Agrotorg and the Company undertook to purchase bonds from their holders at 100 per cent. of their nominal value if Pyaterochka Finance LLC delays payment of the coupon or the principal amount by over 10 days or refuses to make such payments.

RESULTS OF OPERATIONS

Explanation of key items in the profit and loss statement

Revenue

The Group derives revenue from sales of food and non-food products at its stores and from royalties from its franchisees under the relevant franchise agreements. Revenue represents the total amount, less discounts and allowances for returns under the Group's money back policy and excluding value added tax, receivable by the Group from these sources. The table below presents a breakdown of the Group's revenue by product category, for the year ended 31 December 2004:

Category	Per cent. of total revenue, for the year ended 31 December 2004
Milk/dairy	17
Meat	15
Alcohol	11
Non-food	10
Fruit and vegetables	9
Confectionary/bakery	8
Dry goods	6
Other	24

Cost of sales and gross profit

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

Gross profit represents revenue less cost of sales.

Selling, general and administrative expenses

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

In addition, the Operating Companies make royalty payments to Speak Global for the use of the Pyaterochka trademark in Russia. Such royalty payments are calculated at the rate of approximately 5 per cent. of the Operating Companies' annual turnover. The aggregate amount of the royalty payments made by the Operating Companies in 2002, 2003 and 2004 was approximately US\$58.0 million, US\$10.5 million and US\$1.6 million, respectively. Royalty payments are not shown in the Financial Statements due to intra-Group elimination on combination (see Note 3 to the Financial Statements).

Operating profit

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

Profit before income tax

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

Income tax

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

As a legal entity incorporated in The Netherlands, the Company had its taxable profits taxed at a rate of 34.5 per cent. for the years ended 31 December 2004, 2003 and 2002 (the first 22,689 Euro of taxable profits in each year was taxed at 29.0 per cent.). The Operating Companies paid income taxes in accordance with the laws of the Russian Federation at a rate of 24.0 per cent. in each of the three years under review. Speak Global had its taxable profits (which largely consisted of the royalty payments received from the Operating Companies (see "– Selling, general and administrative expenses") less deductible expenses) taxed in accordance with the laws of Cyprus at the rate of 4.25 per cent. (which was the rate applicable to companies qualifying as "international business companies" under the laws of Cyprus) in each of the three years under review.

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

Net profit

Net profit is profit before income tax less income taxes.

YEAR ENDED 31 DECEMBER 2004 COMPARED TO THE YEARS ENDED 31 DECEMBER 2003 AND 31 DECEMBER 2002

Revenue

The Group's revenue increased by 45.6 per cent., to US\$1,105.8 million, for the year ended 31 December 2004 from US\$759.6 million for the year ended 31 December 2003, and by 54.0 per cent. for the year ended 31 December 2003 from US\$493.2 million for the year ended 31 December 2002. The increase in revenue was principally the result of opening new stores (the number of the Group's stores increased to 235 as at 31 December 2004 from 189 as at 31 December 2003 and 135 as at 31 December 2002, resulting in an increase in

the Group's aggregate selling area to 146,000 square metres as at 31 December 2004 from 116,000 square metres as at 31 December 2003 and 77,000 square metres as at 31 December 2002). The increase in revenue was also the result of like-for-like revenue growth (discussed below) and an increase in revenue received as royalty payments from the Group's franchisees. Revenue received from franchisees increased by 65.5 per cent. to US\$4.8 million in the year ended 31 December 2004 from US\$ 2.9 million in the year ended 31 December 2003; revenue received from franchisees in the year ended 31 December 2002 was insignificant.

Like-for-like revenue represents a comparison in two consecutive financial years of the revenue of the stores open at the beginning of the first of the two consecutive financial years and not closed down permanently, expanded or downsized by the end of the second of the two consecutive financial years. Such revenue is calculated on the basis of the gross cash receipts of the relevant stores translated into US dollars (at the average of the official exchange rates quoted by the Central Bank in the relevant year) and adjusted for applicable taxes to arrive at a net revenue on a per store basis. The Group's like-for-like revenue increased with respect to the stores open at the beginning of 2003 by approximately 16 per cent. in the year ended 31 December 2004 in comparison with the year ended 31 December 2003. This increase in like-for-like revenue was due primarily to inflation-driven price increases, as well as higher sales volumes driven by the increased purchasing power of the Group's customer base. This increase in like-for-like revenue was also assisted, in US dollar terms, by the strengthening of the Rouble against the US dollar in 2004 as compared with 2003.

Cost of sales

Cost of sales increased by 40.4 per cent., to US\$860.4 million, for the year ended 31 December 2004 from US\$612.9 million for the year ended 31 December 2003 and by 49.5 per cent. for the year ended 31 December 2003 from US\$409.8 million for the year ended 31 December 2002. The increase in cost of sales over the period under review was due to the overall increase in sales volumes driven by new store openings and growth in sales volumes on a like-for-like basis.

Gross profit

The Group's gross profit increased by 67.3 per cent., to US\$245.4 million, for the year ended 31 December 2004 from US\$146.7 million for the year ended 31 December 2003 and by 75.9 per cent. for the year ended 31 December 2003 from US\$83.4 million for the year ended 31 December 2002. The increase in gross profit was due to higher revenue and an increase in the Group's gross margin, which increased by 2.9 percentage points to 22.2 per cent. for the year ended 31 December 2004 from 19.3 per cent. for the year ended 31 December 2003, and by 2.4 percentage points for the year ended 31 December 2003 from 16.9 per cent. for the year ended 31 December 2002. This increase in the gross margin was primarily a result of lower prices paid to the Group's suppliers as well as, to a lesser extent, an increased share of private label sales in the overall revenue of the Group.

Selling, general and administrative expenses

The following table sets forth a breakdown of the Group's selling, general and administrative expenses for the three years ended 31 December 2004, 2003 and 2002:

	For the year ended 31 December		
	2004	2003	2002
	(US\$ thousands)		
Payroll and related taxes	65,450	42,553	15,070
Rent	21,591	14,233	6,989
Depreciation and amortisation	14,536	8,311	3,435
Advertising and promotional expenses	8,976	6,991	1,632
Repair and maintenance	6,162	5,281	4,715
Security	4,241	2,299	1,106
Package and raw materials	3,472	2,962	1,949
Utilities	3,345	1,458	347
Transportation	2,885	1,507	1,233
Insurance	1,995	3,983	—
Taxes, other than income tax	1,287	765	4,142
Other expenses	14,504	11,404	10,460
Total	148,444	101,747	51,078

The Group's selling, general and administrative expenses increased by 45.9 per cent., to US\$148.4 million, for the year ended 31 December 2004 from US\$101.7 million for the year ended 31 December 2003 and by 99.0 per cent. for the year ended 31 December 2003 from US\$51.1 million for the year ended 31 December 2002. The increase in expenses was primarily due to an increase in payroll costs and related taxes (resulting primarily from salary increases), an increase in rent (resulting from the opening of stores by the Group on premises leased from third parties), an increase in depreciation expense (resulting from an increase in the number of stores operating on properties owned by the Group, acquisition of immovable property and new equipment by the Group for its stores and warehouses). This was offset in part by a decrease in taxes for the year ended 31 December 2003 (which was a result primarily of the abolition of the Russian Federation road users' tax). As a percentage of revenue, the aggregate selling, general and administrative expenses of the Group represented 13.4 per cent. of the revenue of the Group for the year ended 31 December 2004, 13.4 per cent. of revenue of the Group for the year ended 31 December 2003, and 10.4 per cent. of revenue of the Group for the year ended 31 December 2002.

Operating profit and operating margin

Operating profit increased by 115.6 per cent., to US\$97.0 million, for the year ended 31 December 2004 from US\$45.0 million for the year ended 31 December 2003 and by 39.2 per cent. for the year ended 31 December 2003 from US\$32.3 million for the year ended 31 December 2002. This was due to a substantial increase in the Group's gross profit and gross margin (which was largely due to the factors discussed above), offset in part by an increase in selling, general and administrative expenses as discussed above. As a result of the increase in the Group's selling, general and administrative expenses in 2003, the Group's operating margin (calculated as the percentage ratio of the Group's operating profit to its revenue) declined to 5.9 per cent. in 2003 from 6.6 per cent. in 2002. In 2004, the Group's operating margin increased to 8.8 per cent.

Profit before income tax

Profit before income tax increased by 121.2 per cent., to US\$94.0 million, for the year ended 31 December 2004 from US\$42.5 million for the year ended 31 December 2003, and by 28.0 per cent. for the year ended 31 December 2003 from US\$33.2 million for the year ended 31 December 2002. The increase was due primarily to the substantial increases in the Group's operating profit (particularly for the year ended 31 December 2004), marginally offset by an increase in finance costs for the year ended 31 December 2004 and the absence of a net monetary gain resulting from the Group ceasing to apply hyperinflationary accounting principles (which it applied in the financial year ended in December 2002) in the financial years ended 31 December 2004 and 31 December 2003. See " – Significant Factors Affecting Results of Operations – Effects of hyperinflationary accounting".

Income tax expense

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

	For the year ended 31 December		
	2004	2003	2002
	<small>(US\$ thousands)</small>		
Current tax	19,013	7,965	3,679
Deferred tax	511	748	809
Total income tax expense	<u>19,524</u>	<u>8,713</u>	<u>4,488</u>

Income tax expenses increased by 124.1 per cent., to US\$19.5 million, for the year ended 31 December 2004 from US\$8.7 million for the year ended 31 December 2003 and by 93.3 per cent. for the year ended 31 December 2003 from US\$4.5 million for the year ended 31 December 2002. This increase was mainly due to an increase in the Group's profit before income tax, as well as, for the year ended 31 December 2003, an increase in the Group's effective rate of income tax (expressed as a percentage of profit before income tax) from 13.5 per cent. to 20.5 per cent. This increase in the effective rate of income tax in 2003 was mainly a result of certain members of the Group ceasing to be eligible for the Russian statutory simplified taxation election available to small businesses as a result of changes in the Russian tax legislation. In 2004, the effective rate of income tax for the Group was 20.8 per cent.

Net profit

Net profit increased by 120.1 per cent., to US\$74.4 million, for the year ended 31 December 2004 from US\$33.8 million for the year ended 31 December 2003 and by 17.8 per cent. for the year ended 31 December 2003 from US\$28.7 million for the year ended 31 December 2002. This was principally a result of growth in the Group's profit before income tax, offset in part by a substantial increase in the Group's income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

In addition to financing its existing operations, the Group's liquidity needs arise principally from the need to finance the acquisition and construction of stores, as well as costs associated with their opening. In the periods under review, the Group has been able to meet most of its liquidity needs out of net cash provided by operating activities and, to a lesser extent, out of bank borrowings.

Net cash provided by operating activities

The Group's primary source of liquidity is net cash provided by operating activities. The Group's net cash provided by operating activities increased by 51.0 per cent., to US\$107.8 million, for the year ended 31 December 2004 from US\$71.4 million for the year ended 31 December 2003 and by 63.4 per cent. for the year ended 31 December 2003 from US\$43.7 million for the year ended 2002. The increase was due to the combined effect of the increase in the Group's profit before income tax (as discussed above) and the effect of certain non-cash items (such as depreciation of property, plant and equipment), as well as a significant increase in trade accounts payable and other payables and accrued expenses. The management of the Company expects increases in its payables and receivables to continue in the future as the Group's business continues to grow. The increase in trade accounts payable during the periods under review was due primarily to an increase in sales volumes (driven by new store openings and increased like-for-like sales) as well as an improvement in payment deferral terms agreed with the Group's suppliers. The increase in other payables and accrued expenses was primarily due to an increase in payroll-related expenses driven by salary increases. These positive effects were offset in part by increases in inventories and receivables and prepayments over the period.

Net cash used in investing activities

The principal use of net cash used in investing activities over the periods under review was for the purchase of property, plant and equipment, as well as construction in progress. This was mainly for acquisition and construction of stores, acquisition of land rights, acquisition of in-store equipment and the construction of modern distribution centres in St. Petersburg and in the Moscow area.

Cash out-flow due to purchase of property, plant and equipment increased by 24.3 per cent., to US\$78.7 million, for the year ended 31 December 2004 from US\$63.3 million for the year ended 31 December 2003 and by 150.2 per cent. for the year ended 31 December 2003 from US\$25.3 million for the year ended 31 December 2002. These year-on-year increases were driven mainly by the Group's ongoing store expansion programme necessitating the purchase of store properties, as well as by purchases of new in-store and warehouse equipment and vehicles.

Cash out-flow due to construction in progress increased by 286.2 per cent., to US\$22.4 million, in 2004 from US\$5.8 million in 2003 after decreasing by 75.4 per cent. in 2003 from US\$23.6 million in 2002. The increase in 2004 was mainly due to the ongoing construction of new stores in 2004, construction of the planned extension to the Group's distribution centre in the St. Petersburg area. In addition, the increase in net cash used in investing activities was due to the US\$31.6 million financing provided by the Group to the Carousel group for construction of hyper-markets. The decrease in construction in progress in 2003 was due mainly to the completion of the Group's distribution centre in St. Petersburg, as well as the completion of four newly built stores in 2003.

Net cash from financing activities

Net cash from financing activities increased by 196.2 per cent., to US\$23.4 million, generated in 2004 and by 95.4 per cent. in 2003 to US\$7.9 million from US\$4.0 million generated in 2002. The increase in net cash flow from financing activities from 2003 to 2004 was due principally to a significant increase in net proceeds from bank loans, offset by a US\$17.9 million distribution made to shareholders in 2004 and a US\$3.4 million dividend paid to shareholders in 2004. The change from 2002 to 2003 was due principally to an increase in net bank loan

proceeds and a net increase in bank overdrafts, offset in part by a US\$2.3 million dividend paid in 2003. Although, because of increased net cash provided by operating activities, the Group incurred lower borrowings in 2003, and it also made significantly lower loan repayments in 2003 and 2002.

Borrowings

The following table sets forth the Group's borrowings as at the dates indicated:

	As at 31 December		
	2004	2003	2002
	(US\$ thousands)		
Short-term loans ⁽¹⁾	32,519	9,927	6,910
Long-term debt loans	38,609	11,729	2,517
Total Borrowings	71,128	21,656	9,427

Note:

(1) Short-term loans includes the current portion of long-term loans which amounted to US\$3,380,000 and US\$2,838,000 as at 31 December 2004 and 2003, respectively.

Short-term borrowings

Over the periods under review, the Group has entered into a number of Rouble-denominated loan agreements with the Savings Bank of Russian Federation (Sberbank), Industry and Construction Bank (Promstroibank), ZAO Raiffeisenbank Austria ("Raiffeisenbank") and LLC Kaiser (a party under common control, see "Shareholders and Related Party Transactions – Related party transactions"). The total amount outstanding under such loans as at 31 December 2004 was US\$29.1 million. The loans outstanding as at 31 December 2004 bear interest at rates varying from 0.1 per cent. (for LLC Kaiser) to 11.7 per cent. per annum. As at 31 December 2004, merchandise with a book value of US\$23.5 million and property, plant and equipment with a book value of US\$9.0 million were pledged to secure these loans.

Long-term borrowings

In September 2003, the Group entered into two credit agreements with Raiffeisenbank for an aggregate of US\$10.0 million. In January 2004, the Group entered into two additional credit agreements with Raiffeisenbank for an aggregate of US\$9.9 million. Each of these loans bears interest at LIBOR+5.25 per cent. and is redeemable in quarterly instalments until August 2008. As at 31 December 2004, US\$19.6 million was outstanding under these agreements. Property, plant and equipment with a book value of US\$19.4 million was pledged to secure the outstanding balances as at 31 December 2004.

Over the periods under review, the Group entered into several RUR-denominated credit facilities with Sberbank to finance capital expenditure. In September 2002, the Group entered into a credit facility for a RUR amount equivalent to US\$2.5 million, maturing in September 2007. In November 2003, the Group entered into a credit facility in a RUR amount equivalent to US\$4.7 million maturing in November 2008. In July 2004, the Group entered into a credit facility in a RUR amount equivalent to US\$4.5 million, maturing in July 2009. These credit facilities bear interest at rates ranging from 16.0 per cent. to 18.0 per cent. per annum. As at 31 December 2004, US\$8.6 million was outstanding under these agreements.

In July 2004, the Group entered into a revolving credit facility with Sberbank for a RUR amount equivalent to US\$8.3 million, for working capital purposes. The facility bears interest at a rate of 11.6 per cent. per annum and matures in January 2006.

In July 2004, the Group entered into a credit facility with Sberbank of up to a RUR amount equivalent to US\$6.1 million, for working capital purposes. Interest rate on this credit facility varies between 11.5 per cent. and 12.5 per cent. per annum. As at 31 December 2004, US\$4.0 million was outstanding under this credit facility. The facility matures in January 2006.

In February 2004, the Group entered into a credit facility with Sberbank of up to a RUR amount equivalent to US\$5.4 million, for working capital purposes. The credit facility bears interest at a rate of 15.5 per cent. to 16.5 per cent. per annum. As at 31 December 2004, US\$0.7 million was outstanding under this credit facility.

In August 2003, the Group entered into a credit facility with Sberbank of up to a RUR amount equivalent to US\$3.2 million for working capital purposes. Interest rate on this credit facility ranged between 15.5 per cent. and 16.5 per cent. per annum. As at 31 December 2004, US\$0.7 million was outstanding under this credit facility. The loan was repaid in February 2005.

As at 31 December 2004, the Sberbank credit facilities were secured by pledges of equipment (with a book value of US\$9.9 million) and merchandise (with a book value of US\$15.2 million).

On 14 January 2005, the Group entered into a credit facility agreement with Raiffeisenbank for an amount of up to US\$7.5 million to finance capital expenditure. The facility matures in January 2010, bears interest at the rate of LIBOR+4.85 per cent. per annum and is secured by a pledge of immovable property with a book value of approximately US\$10.0 million. As at 5 May 2005, US\$2.8 million was outstanding under the facility.

On 20 January 2005, the Group entered into a credit facility agreement with Raiffeisenbank for an amount of US\$5.0 million to finance capital expenditure. The facility matures in January 2010, bears interest at the rate of LIBOR+4.85 per cent. and is secured by a pledge of immovable property. As at 5 May 2005, US\$4.1 million was outstanding under the facility.

Capital expenditure

The Group's total capital expenditure amounted to approximately US\$133 million, US\$72 million and US\$54 million in 2004, 2003 and 2002, respectively. The Group's capital expenditure during these periods has been largely driven by its aggressive store roll-out strategy, and the expansion of the Group's distribution centre capacity. In 2004, the Group's capital expenditure was spent mainly on purchase of property, plant and equipment, construction of new stores and store launch costs. Approximately US\$31.6 million was attributed to the purchase of property, plant and equipment and construction for the Carousel hyper-market project. See "Shareholders and Related Party Transactions – Hyper-markets project".

The Group's programme to roll out new stores and to expand its distribution capacity is likely to lead to significant capital expenditure in the future. The management of the Company expects to spend US\$120 million and US\$190 million in 2005 and 2006, respectively. Of these amounts, the Group expects to spend approximately US\$6.7 million on the expansion of its distribution centre in the St. Petersburg area in 2006 and approximately US\$67 million on the construction and subsequent expansion of a distribution centre in the Moscow area over the period of 2005 to 2007 (with approximately US\$39 million expected to be spent on the Moscow area distribution centre in 2006). The transfer of the Carousel hyper-market assets in 2005 (see "Shareholders and Related Party Transactions – Related party transactions – Related party transactions relating to the Carousel project – Asset transfers between the Group and the Carousel group") is expected by the management of the Company to offset the Group's increasing capital expenditure in the short term. The management of the Company does not anticipate any further capital expenditure with respect to the Carousel group.

Capital Commitments

In 2003 and 2004 the Group entered into investment agreements for the construction of stores in St. Petersburg and Moscow. Capital commitments as at 31 December 2004, 2003 and 2002 were as follows:

	As at 31 December		
	2004	2003	2002
	(US\$ thousands)		
Commitments for construction of property	10,850	22,153	—

Critical accounting policies

The Group prepares its combined and consolidated financial statements in accordance with IFRS. The preparation of the combined and consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including the disclosure of contingent assets and contingent liabilities and the reported amounts of revenue and expenses during the reported period. The Group's critical accounting policies are those that are most important to its financial condition and results of operations and those that require the most difficult, subjective or complex judgments by the management of the Company. On an on-going basis, the management of the Company evaluates its estimates and assumptions. The

management of the Company bases its estimates and assumptions on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the Group's combined and consolidated financial statements, actual results may vary from these estimates.

The management of the Company believes that the following policies are the Group's critical accounting policies. For a summary of all of the Group's significant accounting policies, including the critical accounting policies discussed below, please see Note 3 to the Financial Statements.

Principles of combination

The Financial Statements include the accounts of the Company, the Operating Companies and Speak Global.

The Company is the holding company of the Operating Companies. Speak Global is the owner of the Pyaterochka trademark and was, for the periods covered by the Financial Statements, an affiliate of the Company under common control in Russia and management. In March 2005, Speak Global became a wholly owned subsidiary of the Company. See “– Trends and Recent Developments”. The management of the Company believes that combined and consolidated financial statements for the Company, the Operating Companies and Speak Global present more meaningful information than the separate statements of these companies. The separate statements of these companies cannot stand on their own, because they may not reflect appropriate revenue, costs or overhead allocations and because transactions may be unduly influenced by controlling shareholders. However, the Financial Statements do not fully portray the legal structure of the Group. The legal structure of the Group changed in 2005.

Inventories

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

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

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

Impairment of tangible non-current assets

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

Vendor allowances

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

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

Vendor allowances are only recorded if evidence of a binding arrangement exists with the vendor and receipt is both probable and estimable. The most common allowances offered by vendors are (i) volume-based allowances

based on the quantity of products sold to customers or purchased from the vendor, and (ii) promotional allowances, which relate to cooperative advertising and market development efforts. These allowances are normally recognised as a reduction of cost of goods sold when the underlying products are sold.

The management of the Company believes that the accounting estimate relating to vendor allowances is a critical accounting policy, since it requires estimates. First, the Group needs to make an estimate of the portion of vendor allowances earned during a period that should be allocated to cost of sales and inventory, respectively. The Group makes this estimate by allocating a portion of the vendor allowance to inventory based on the turnover of the goods sold. Second, if vendor allowances are based on achieving certain volume targets, the vendor allowances are recognised when the Group achieves the volume targets.

Taxation

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

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

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

Disclosures about Market Risk

Interest rate risk

The Group is exposed to interest rate risk on those of its borrowings that have a variable interest rate (exposing the Group to the risk of short-term interest fluctuations or "interest cash flow risk"), as well as borrowings that are short-term in nature (exposing the Group's refinancing activities to risk associated with changes in the applicable interest rate). The Group does not hedge its interest rate risk.

Foreign currency risk

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

The Financial Statements are expressed in US dollars, and the Group intends that its IFRS financial statements to be prepared in subsequent periods will be denominated in US dollars. Most of the Group's revenue and expenses are denominated and settled in Roubles. The Group does not hedge against balance sheet translation risk.

Credit risk

The Group is exposed to credit risk on relatively little of its revenue, as most of its sales are on a cash basis. The Group's credit risk is primarily attributed to its other receivables. The Group does not hedge its credit risk.

MANAGEMENT

Pyaterochka's management structure consists of the Supervisory Board, the Board of Management ("Board of Management") and certain executive officers.

Supervisory Board

Pursuant to the Articles, the Supervisory Board is responsible for the supervision and advising of the Board of Management, which in its turn is responsible for Pyaterochka's overall management. The Supervisory Board meets at least four times per year. For a description of the Supervisory Board, see "Description of Share Capital and Corporate Structure – Board Practices – Supervisory Board". The Supervisory Board currently consists of five members. The names of the current members, together with their respective age, position, present principal occupations and qualifications are set out below. The business address of each of the members of the Supervisory Board is Rokin 55, 1012 KK Amsterdam, The Netherlands.

Mr. David Noble (41), the Chairman of the Supervisory Board, is a former director at British grocery retailer Somerfield. In 2001, he was engaged by the EBRD as an industry expert and later joined the Supervisory Board as a non-executive member. Mr. Noble has been involved in the food industry for over 15 years. In 1998 to 1999, he worked at Supermarket Direct and as Joint Managing Director was involved in the sale of the business to Somerfield Plc. At Somerfield Plc (1999 to 2000) Mr. Noble was a Director and member of the Board of Somerfield Direct Ltd. and was responsible for operations and integration of the home delivery business. From 1995 to 1998, Mr. Noble was Finance Director of GoFoods Ltd, a distributor of food products. From 1993 to 1994, Mr. Noble was Managing Director of Wonderfoods Ltd, one of the largest distributors of food products in Nigeria. Mr. Noble holds an MBA from Cranfield School of Management (1995). Mr. Noble is also a non-executive Director of Morleys of Bicester Ltd, Altergraphics Ltd and Stankerr Estates Ltd.

Mr. Andrei Rogachev (41) is a co-founder and the principal of the business. Mr. Rogachev received his first degree from Meteorology Institute of St. Petersburg (1986). He also graduated from St. Petersburg Technical University with a major in finance (1996) and received a PhD from St. Petersburg State University of Economics and Finance (1997). Mr. Rogachev started his career in 1989 as an environmental researcher and he later set up and ran a small enterprise specialising in the design and production of environmental surveying equipment. In 1991, he moved into computer wholesaling and headed the Russian Computer Exchange. From 1992 to 1997, he worked in financial services in such areas as currency trading, investment projects in wholesale food supply and property development. He held the position of Deputy Chairman of Stema Bank from 1993 to 1996 and served as a co-ordinator of the Banking Confederation. Mr. Rogachev joined the Group in 1998.

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

Ms. Tatyana Franous (47) is a graduate of St. Petersburg State University with a degree in applied mathematics and accounting systems. Her career has included senior finance positions with a German trading company. She has a finance degree from St. Petersburg State University of Economics and Finance. Prior to joining the Group in 1998, Ms. Franous was head of finance at United Food Company, a wholesaler and distributor of canned food products.

Mr. Igor Vidiaev (43) has been with Pyaterochka since 1998 as Chief Operating Officer and later as Chief Executive Officer. Formerly a senior officer in the Russian navy, he has held senior positions in the banking and finance industries. Prior to joining Pyaterochka, Mr. Vidiaev was Senior Vice President of LEK Estate, a property developer in St. Petersburg. Mr. Vidiaev holds a degree in economics from St. Petersburg Technical University (1996) and a PhD in economics from St. Petersburg State University of Economics and Finance (1997).

Board of Management

Pursuant to the Articles, the Board of Management is responsible for the Company's overall management and presently consists of four members. The Board of Management meets at least 12 times per year. For a description of the Board of Management, see "Description of Share Capital and Corporate Structure – Board Practices – Board of Management". The names of the current members, together with their respective ages, positions on the Board of Management, previous positions and qualifications are set out below. The business address of each of the members of the Board of Management is Rokin 55, 1012 KK Amsterdam, The Netherlands.

Mr. Oleg Vysotsky (36), the Company's Chief Executive Officer, is a graduate of the Makarov State Naval Academy in St. Petersburg. Prior to joining the Company in 1998, Mr. Vysotsky worked in the merchant fleet and later headed the logistics divisions of several leading wholesalers in St. Petersburg.

Ms. Anzhelika Li (33), the Company's Chief Financial Officer, holds a degree in economics from St. Petersburg State Technical University. Before joining Pyaterochka as a finance director in March 2001, her career included senior finance positions in the banking, audit and publishing industries.

Mr. Victor Beliakov (45) holds a master's degree in applied mathematics from Moscow State University, an MBA from Cranfield School of Management in the United Kingdom and a post MBA from McGill University in Canada. Prior to joining Pyaterochka, Mr. Beliakov worked for the EBRD as the Fund Manager of a private equity fund set up by EBRD for its Russian investments. His career also includes the positions of Business Development Manager, Russia & CIS for Fujitsu ICL and Senior Consultant for KPMG Barents Group. Mr. Beliakov is responsible for corporate strategy and capital markets, as well as liaising with the leading international retailers.

Mr. Wim Rieff (45) joined the Group in 2002 and is Pyaterochka's Company Secretary. He is also employed by Mees Pierson Intertrust B.V. and has held a number of senior positions during the 27 years he has been there.

Pursuant to the Articles, the management of the Company shall be constituted by a Board of Management consisting of two or more Directors A, one Director B and possibly one Director C. Mr. Vysotsky and Ms. Li have been appointed Directors A, Mr. Rieff has been appointed Director B and Mr. Victor Beliakov has been appointed Director C. See "Description of Share Capital and Corporate Structure – Board Practice – Board of Management".

Executive officers

The names of the members of Pyaterochka's senior management team (the "Executive Officers"), together with their respective ages, positions and qualifications, are set out below. The business address of each of the Executive Officers is Rokin 55, 1012 KK Amsterdam, The Netherlands.

Mr. Mikhail Lapin (54) is the Head of Franchise Development. He received his first degree from St. Petersburg Bonch-Bruевич Electronic Technical Institute for Communications in 1973. Mr. Lapin's career included managerial positions with several enterprises of the USSR Ministry of the Radio Industry and Ministry of the Defence Industry, as well the positions of Vice-President of the Association of State Enterprises in the Military-Industrial Complex. Since 2001, Mr. Lapin has served as head of franchise development in the Russian regions and CIS countries. Mr. Lapin holds a doctorate in technical sciences and an MBA. He is a professor, Member of the Engineering Academy and the winner of the National Trade Association award in 2003.

Mr. Denis Lepekha (28) is the Deputy Chief Financial Officer/Head of Corporate Finance. Mr. Lepekha graduated from St. Petersburg State University of Economics and Finance. He started his career in 1997 as a trader and then as a senior consultant with a brokerage firm. Mr. Lepekha joined the Company in 2001.

Mr. Igor Sapozhkov (35), the Head of Purchasing, is a graduate of the St. Petersburg State University (1994) in chemistry and holds degrees from DEA chimie organique d' Universite de Paris (1992) and IEMBA Stockholm School of Economics in St. Petersburg (2003). Before joining the Group in 2001, he worked as a trade managing director in several Russian firms.

Mr. Oleg Krytsyn (39), Head of the Group's Audit Department, is a graduate of Lvov State Medical Institute (1989). Prior to joining the Company in 1999 as head of the Purchasing Department, subsequently becoming Vice President for purchase inspection and Head of the Audit Department. Prior to joining the Company, Mr. Krytsyn's career included several positions in grocery retail. Mr. Krytsyn holds an MBA from St. Petersburg State University.

Mr. Sergei Lepkovich (39), head of St. Petersburg operations, received his first degree from the St. Petersburg Avionics Institute. Prior to joining the Company in 1998, he held senior positions in several leading businesses in St. Petersburg. In 2001, he received the National Trade Association award. He received an award for school humanisation in December 2003. In 2004, the Association of Russian Managers ranked Mr. Lepkovich among the top 30 professional managers of Russia.

Mr. Dmitry Potapenko (34) is Head of the Group's operations in the Moscow area. He is a graduate of the Moscow Institute for Radio Technology, Electronics and Automatics and holds an MBA from the Russian Academy of Foreign Trade. Before joining the Group in 2003, his career included a senior position with Grundig GmbH, as well as senior positions with several Russian retail businesses.

Corporate governance

Under the new Dutch corporate governance code, the Supervisory Board should consist of independent persons, except for one member. At the moment, Pyaterochka is not compliant with this provision. Pyaterochka intends to appoint a second independent member to the Supervisory Board in 2006. The Company has decided on the gradual implementation of this best practice provision in order to maintain an adequate number of persons on the Supervisory Board with knowledge of the Company's business. See "Description of Share Capital and Corporate Structure – Board Practices – Corporate Governance Committee" for more information on Dutch corporate governance regime.

Compensation and interests of the Supervisory Board and the Board of Management

For the year ended 31 December 2004, the Company paid total aggregate remuneration (including benefits in kind) of US\$1.23 million to the directors of the Group and the Executive Officers, of which US\$1.1 million was paid to the directors. Except as disclosed above and in "Shareholders and Related Party Transactions", neither any member of the management of the Company nor any connected person has any interest, including any options, in the share capital of the Company.

Employee stock incentive plan

The Group has established a stock incentive plan for certain of its executives and key employees, including members of the Board of Management and Executive Officers (collectively, "Eligible Participants"). Under the terms of the plan, Eligible Participants may be granted options to acquire the economic benefit in, or receive the cash value of, a certain number of GDRs. The grant of any such option to any Eligible Participant, and the number of GDRs subject to such option, will be subject to certain performance criteria specific to such Eligible Participant being met, including, *inter alia*, the Group achieving certain EBITDA, store roll-out and cost containment or reduction targets. The Company may vary or waive such performance criteria. Any option granted may not be exercised earlier than on the third anniversary of its grant. The exercise price of any such option will be equal to the aggregate nominal value of the Shares represented by the GDRs subject to such option. The Group will bear the costs associated with the stock incentive plan, either by purchasing a requisite number of the GDRs on the market or, at the option of the Group, procuring that a sufficient number of Ordinary Shares are issued by Pyaterochka and deposited with the Depositary. The Group intends that the stock incentive plan will have a term of five years and that the first options will be granted in 2005. The costs associated with the plan over its term will not exceed US\$150 million. As at the date of this Offering Circular, no options had been granted.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The table below sets forth certain information regarding the ownership of Ordinary Shares (i) as of the date of this Offering Circular and (ii) as of the Closing Date, as adjusted to give effect to the sale of the Shares in the form of GDRs by the Selling Shareholder in the Global Offering. All information given in this section assumes that the Over-allotment Option is exercised in full.

<u>Shareholders</u>	<u>Before the Offering</u>		<u>After the Offering</u>	
	<u>Number of Ordinary Shares</u>	<u>% of Share Capital</u>	<u>Number of Ordinary Shares</u>	<u>% of Share Capital</u>
Marie-Carla Corporation N.V.	19,642,226	51.28%	6,426,385	16.78%
Tayleforth N.V.	18,664,559	48.72%	18,664,559	48.72%
Total	<u>38,306,785</u>	<u>100%</u>	<u>25,090,944</u>	<u>65.50%</u>

Mr. Rogachev, a member of the Supervisory Board, has a beneficial interest in 51.95 per cent., and after the Global Offering, 34.03 per cent., of the Company. Mr. Girda, a member of the Supervisory Board, has a beneficial interest in 43.55 per cent., and, after the Global Offering, will have a beneficial interest in 28.53 per cent., of the Company. Ms. Franous, a member of the Supervisory Board, has a beneficial interest in 3.0 per cent., and, after the Global Offering, will have a beneficial interest in 1.97 per cent., of the Company. Mr. Vidiaev, a member of the Supervisory Board, has a beneficial interest in 1.5 per cent., and, after the Global Offering, will have a beneficial interest in 0.98 per cent. of the Company. These beneficial interests in the Company are held indirectly through Marie-Carla Corporation N.V. and Tayleforth N.V. Save as disclosed above, there is no other person who, directly or indirectly, is interested in 3 per cent. or more of the Company's capital as at the date of this Offering Circular.

Mr. Rogachev and Mr. Girda control the Company and may continue to control the Company following the completion of the Global Offering. There are no arrangements in place that could result in a change of control. There are no agreements between the Shareholders or beneficial owners in relation to the control of the Company or other matters.

Save as disclosed above, there are no other persons who could exercise control over the Company and no person has any right or option to acquire Ordinary Shares, GDRs or any other securities of the Company.

Save as disclosed in this section "Shareholders and Related Party Transactions", none of the members of the Supervisory Board or the Board of Management had or has any interests in any transactions which are or which were unusual in their nature or conditions or significant to the business of the Group and which were effected by the Company during the current financial year, during the financial year ended 31 December 2004 or during any previous financial year and which remain in any respect outstanding or unperformed.

Hyper-markets project

In 2003, the Group established a business to operate a chain of hyper-markets (see "Russian Grocery Retail Industry – Modern grocery retail formats") under the Carousel brand in the Moscow area and the St. Petersburg area (the "Carousel project"). The Carousel project is operated by a group of companies controlled by the Shareholders (the "Carousel group"), including Formata Holding B.V. ("Formata"), a company established in The Netherlands, as well as its wholly owned subsidiaries. Whilst the management of the Company does not currently view the Carousel hyper-markets as direct competitors of the Group's stores, the Carousel hyper-markets may in the future compete with the Group's stores. The construction of hyper-markets for the Carousel project began in late 2003 and was initially financed and managed by the Group. The assets and liabilities relating to the Carousel project were transferred to the Carousel Group in 2005. See "– Related party transactions – Related party transactions relating to the Carousel project".

Related party transactions

There are a number of past and ongoing transactions between members of the Group on one hand and other companies controlled by, or connected with, the Shareholders or parties relating to them on the other hand, as described below.

The management of the Company intends that, after the completion of the Global Offering, any related party transactions proposed to be entered into by the Group will be subject to the review of, and approval by, the non-executive chairman of the Supervisory Board and will be on terms negotiated on an arm's-length basis.

Transfer of Speak Global

In March 2005, the Shareholders contributed and transferred to the Company the entire share capital in Speak Global as a free share premium contribution, whereupon the Company became the sole shareholder in Speak Global.

Related party transactions relating to the Carousel project

Asset transfers and loans between the Group and the Carousel group

The Group transferred to the Carousel group the assets and liabilities relating to the Carousel project in a number of transactions undertaken in 2004 and 2005, as follows.

In 2004, the Group transferred to the Carousel group (see “– Hyper-markets project”) all of its interests and investments in the partially constructed Carousel hyper-markets in the St. Petersburg area (comprising land, buildings and construction in progress) with a book value equivalent to US\$23.4 million and provided the Carousel group with an amount of approximately US\$32 million as loans with interest accruing at the annual rate of 0.1 percent. No cash consideration was received from the Carousel group in connection with the transfer and the loans were never repaid. As a consequence of this transfer and loan, a receivable of US\$55.8 million was recorded in the Group’s Financial Statements as at and for the year ended 31 December 2004. The legal ownership of this receivable was apportioned between Agrotorg’s wholly owned subsidiaries LLC Foodsale, LLC Shop Pyaterochka Plus and LLC Pyaterochka 502.

In March 2005, the Group sold all of the shares held by Agrotorg in LLC Foodsale, LCC Shop Pyaterochka Plus and LLC Shop Pyaterochka 502 to the Carousel group for nominal consideration. The economic effect of this sale was to transfer the receivable arising out of the hyper-markets asset transfer and loan referred to above (in an amount of US\$55.8 million) to the Carousel group, thereby releasing the Carousel group from its obligations under the receivable as well as to impose on the Group a debt of US\$3.9 million in favour of the Carousel group (resulting from the intra-group indebtedness which was owed by the Group to LLC Foodsale, LLC Shop Pyaterochka Plus and LLC Pyaterochka 502 prior to the sale). The management of the Company intends to account for this share sale as a dividend in kind in an amount of US\$59.7 million, decreasing the shareholders’ equity in the Group’s 2005 financial statements. The Shareholders have agreed to indemnify the Group against any tax liabilities arising in connection with the sale (including any interest and penalties incurred thereon).

In addition to the above, the Group provided unsecured loans to the Carousel group to finance the Carousel group’s capital expenditure and working capital in 2004. Such loans gave rise to a short-term unsecured note receivable of US\$7 million recorded in the Company’s Financial Statements as at 31 December 2004. In 2005, the Group has provided additional short-term unsecured loans to the Carousel group for working capital purposes. As at the date of this Offering Circular, the aggregate outstanding amount of the loans provided by the Group to the Carousel group does not exceed US\$37 million. The Group does not intend to provide any further loans to the Carousel group. The Carousel group has agreed to repay all outstanding loans by 31 August 2005.

Shared services between the Group and the Carousel group

In May 2005, the Group will enter into a shared services agreement with Formata for the provision to the Carousel group of certain services by the Group, including services relating to purchasing, human resources and accounting, by companies within the Group and/or third parties. The charges for the services provided under the shared services agreement are payable by Formata quarterly and are determined pursuant to a formula having the effect of sharing, between the Group and the Carousel group, all the costs incurred by the Group in procuring such services to the Group and the Carousel group, pro rata to the number of stores operated by the Group and the number of hyper-markets operated by the Carousel group, respectively, in each relevant quarter. Such quarterly charges are subject to periodic review by the non-executive chairman of the Supervisory Board. In addition, the Group has the right to an extraordinary review of such changes by the non-executive chairman of the Supervisory Board if the Group considers that there has been a material increase in the volume of services requested by the Carousel group or any other material change has occurred in any circumstances relevant to the provision of such shared services. Under the terms of the shared services agreement, each party is severally responsible for payment of any amounts due from it to its suppliers. Each party has the right to disclose to third parties the fact of sharing the services (including those relating to supply and purchasing) with the other party, so

as to maximise any potential benefits to the Group and to the Carousel group. The Group is under no obligation to provide the Carousel group any services which are no longer provided to the Group. The shared services agreement has a term of five years and can be terminated by either party, subject to a one-year notice period.

Other related party transactions

Relationship with Media 5 and Media 5M

In 2004, the Group leased advertising space in its St. Petersburg stores to LLC Media 5 (“Media 5”) and LLC Media 5M (“Media 5M”), companies controlled by certain members of the Supervisory Board. In 2004, the rent receivable by the Group from Media 5 was approximately US\$0.1 million and the rent receivable from Media 5M was approximately US\$0.2 million.

In 2004, the Group provided unsecured loans to Media 5 in an aggregate principal amount of approximately US\$0.2 million, bearing an interest rate of 0.1 per cent. per annum.

In May 2005, the Group will enter into an advertising space lease agreement with Media 5. Under the terms of the lease agreement, a quarterly rent of US\$1,000 per store is payable by Media 5 to the Group. The rent is subject to annual review by the non-executive chairman of the Supervisory Board. The management of the Company believes that the lease agreement is on normal commercial terms that are comparable to those that would be attainable by the Group in the ordinary course from an unrelated contractor under similar circumstances. The lease agreement has a term of five years and can be terminated by either party, subject to a one-year notice period.

Relationship with LEK Estate

The Group has engaged and expects to continue to engage the LEK Estate group of companies (“LEK Estate”) as contractor for the purposes of construction of stores for the Group in the St. Petersburg area. Mr. Rogachev is a member of the board of directors of LEK Estate. The management of the Company believes that the terms on which LEK Estate companies are engaged as contractors are normal commercial terms and would be comparable to those that would be attainable by the Group in the ordinary course from an unrelated contractor under similar circumstances.

In 2003, the Group purchased a newly completed building from LEK Estate for a total consideration of US\$0.5 million. In 2002, the Group granted a loan to LEK Estate for a total amount of US\$4.4 million. The loan was fully repaid by 31 December 2002.

Relationship with Macromir

Over the period of 2002 to 2004, the Group engaged LLC Macromir (“Macromir”), as one of the contractors for the construction of the hyper-markets. Mr. Rogachev is a member of the board of directors of Macromir. As at 31 December 2004, 2003 and 2002, the balances of advances paid by the Group to Macromir for construction in progress by Macromir, amounted to US\$0.4 million, US\$0.6 million and US\$2.1 million, respectively. The management of the Company believes that the terms on which Macromir was engaged as a contractor were normal commercial terms that are comparable to those that would be attainable by the Group in the ordinary course from an unrelated contractor under similar circumstances.

Arrangements with respect to tax liabilities

In connection with the revaluation of the Company’s investments in the Operating Companies required by Dutch law (see “Description of Share Capital and Corporate Structure – Share capital” below), the Group was liable for Dutch withholding taxes in the amount of US\$3.5 million as at 31 December 2004. The Shareholders have agreed to indemnify the Group in respect of any tax liability arising in connection therewith (including any interest and penalties).

DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE

Set out below is a summary of material information concerning the share capital of the Company, including a description of certain rights of the holders of Ordinary Shares and related provisions of the Articles and of Book 2 of the Dutch Civil Code (Boek 2 van het Burgerlijk Wetboek) (“Book 2”). This description does not purport to be complete and is qualified in its entirety by reference to the Articles and Book 2.

Share capital

At the date of this Offering Circular, the Company’s authorised share capital consists of 190 million Ordinary Shares with a nominal value of €1.00 per share and the current issued share capital consists of 38,306,785 issued and outstanding Ordinary Shares with a nominal value of €1.00 per share, all of which are fully paid.

Changes in share capital

As at 31 December 2002, the Company’s authorised share capital consisted of 4,000 Ordinary Shares with a nominal value of €454. The issued share capital consisted of 862 issued and outstanding Ordinary Shares with a nominal value of €454 per share, all of which were fully paid up.

In accordance with the provisions of Dutch law the Company revalued its investments in the Russian subsidiaries at fair value for statutory purposes. With effect from 29 December 2003, the authorised share capital of the Company (denominated in Euro) was increased to €190,000,000 and was split into 190,000,000 Ordinary Shares with a par value of €1.00 each. The other reserves resulting from the revaluation of investments were used to issue 37,915,437 Ordinary Shares with a par value of €1.00 each. For purposes of the Financial Statements, the increase of the issued and paid-in share capital of the Company was recorded as a capitalisation of retained earnings as no consideration was received for the issued Ordinary Shares.

For further information on the changes in the Company’s share capital for the past three years, see the “Combined and Consolidated Statements of Changes in Shareholders’ Equity for the Years ended 31 December 2004, 2003 and 2003” on page F-5 of the Financial Statements.

Save as disclosed in this section and on page F-5 of the Financial Statements, there has been no change in the amount of the issued share capital of the Company and no material change in the capital of any member of the Group in the three years preceding the date of this Offering Circular.

Form and transfer of Ordinary Shares

The Ordinary Shares of the Company are in registered form. They are available in the form of an entry in the share register of the Company without the issuance of a share certificate.

Subject to Dutch law and the Articles, shares in registered form can only be transferred by a written deed of transfer. To ensure the effectiveness of the transfer vis-à-vis the Company, the transfer must be acknowledged by the Company, or the deed of transfer must be served on the Company, all in accordance with the provisions of Dutch law and the Articles.

Objects

Pursuant to Article 3 of the Articles, the objects of the Company include, among others, the participation, management and supervision of enterprises, businesses and companies, the finance of businesses and companies, the raising of funds, including the issue of bonds and the provision of guarantees.

Issue of Ordinary Shares and pre-emption rights

Ordinary Shares may be issued pursuant to a resolution adopted by the General Meeting or by another corporate body of the Company designated to do so by a resolution of the General Meeting for a specified period, not exceeding five years. If another corporate body is delegated the authority to issue Ordinary Shares, the resolution must specify the number of Ordinary Shares that may be issued and the period during which the delegation will be effective. The delegation may be extended for periods not exceeding five years. Unless specified otherwise, the delegation is irrevocable. As long as another corporate body is authorised to issue Ordinary Shares, the General Meeting may not resolve to issue Ordinary Shares. When resolving to issue Ordinary Shares, the General Meeting or the designated corporate body must determine the price and other terms and conditions of issue. Unless permitted by Dutch law, Ordinary Shares may not be issued below their nominal value.

Subject to Dutch law and the Articles, shareholders have non-transferable pre-emption rights to subscribe to Ordinary Shares upon the issue of new Ordinary Shares in proportion to the aggregate amount of Ordinary Shares they hold. Such pre-emption rights also apply to the issuance of Ordinary Shares for a non-cash contribution. According to Dutch law and the Articles, this pre-emption right does not apply in respect of any issuance of Ordinary Shares to the employees of the Company or employees of a group company (*groepsmaatschappij*) of the Company.

The Company must announce any issue of Ordinary Shares with pre-emption rights for shareholders and the period during which these rights can be exercised in the Dutch Official Gazette (*Staatscourant*) and in a Dutch daily newspaper with nation-wide distribution unless all Ordinary Shares are registered shares and all shareholders have been notified in writing at the designated address of such shareholders. The period during which pre-emption rights can be exercised must be at least two weeks starting from the date on which the issue is announced in the Dutch Official Gazette (*Staatscourant*). Pre-emption rights will expire if they are not exercised within the exercise period.

Pre-emption rights may be restricted or excluded by resolution of the General Meeting. The proposal for such a resolution must contain the reasons for taking this decision and the proposed issue price for the Ordinary Shares. If another corporate body of the Company has been delegated the authority to issue Ordinary Shares, the General Meeting may authorise such corporate body to restrict or exclude pre-emption rights for a period of no more than five years. This period may be extended for successive periods not exceeding five years. Unless the authorisation provides otherwise, it cannot be revoked.

The authority to issue Ordinary Shares and to grant rights to subscribe for Ordinary Shares, and the authority to exclude the pre-emption rights of shareholders in connection therewith, has not, as at the date of this Offering Circular, been delegated to another corporate body of the Company.

Repurchase by the Company of its own Ordinary Shares

Subject to authorisation by the General Meeting and the provisions of Dutch law and the Articles, the Board of Management may cause the Company to acquire fully paid up Ordinary Shares in its own share capital or depository receipts thereof, provided that (i) the Company's equity minus the acquisition price is not less than the aggregate amount of its issued share capital and the reserves which must be maintained pursuant to Dutch law and the Articles; and (ii) the aggregate nominal value of the Ordinary Shares (or depository receipts thereof) in its share capital acquired, held or held in pledge by the Company or by a subsidiary will not exceed one-tenth of the Company's issued share capital. These restrictions do not apply to the acquisition of Ordinary Shares for free.

The Board of Management may be authorised to acquire Ordinary Shares in the Company's share capital for a maximum period of 18 months. In its resolution, the General Meeting must provide the number of Ordinary Shares that the Company may acquire in its own share capital, how these Ordinary Shares may be acquired and the price range to be observed. The disposal of Ordinary Shares or depository receipts thereof held by the Company shall be effected pursuant to a resolution of the General Meeting, insofar as the General Meeting has not designated another corporate body of the Company in this respect. Such resolution shall also stipulate the conditions of the disposal.

Ordinary Shares held by the Company or a subsidiary are not taken into account for determining whether a quorum is present at a General Meeting. They may not be voted and they do not entitle the Company or the subsidiary to distributions.

The Board of Management has not been authorised to acquire Ordinary Shares in the Company's own capital.

Capital reduction

The General Meeting may resolve to reduce the issued share capital by cancelling Ordinary Shares or by reducing the nominal value of Ordinary Shares by an amendment to the Articles. Dutch law and the Articles contain detailed provisions regarding (partial) repayment of Ordinary Shares, release from the obligation to pay up Ordinary Shares and cancellation of Ordinary Shares.

General meeting

General Meetings are held in Amsterdam or Haarlemmermeer (Schiphol Airport). Annual General Meetings must be held within six months after the end of the financial year. Notice of a General Meeting must be given not less than the fifteenth day before the date of the meeting. The agenda for the annual General Meeting must

contain, among other items placed on the agenda in accordance with Dutch law and the Articles, the following points for discussion:

1. annual report;
2. adoption of the annual accounts;
3. reservation and dividend policy;
4. appropriation of accrued profits;
5. granting of discharge to members of the Board of Management for their management during the financial year concerned and to the members of the Supervisory Board for their supervision thereon; and
6. other proposals brought up for discussion by the Board of Management or the Supervisory Board, or by shareholders or holders of depository receipt of Ordinary Shares.

The agenda contains the items selected by the person(s) convening the meeting. In addition, unless this would violate an important interest of the Company, the agenda contains the items requested in writing by one or more shareholders, or other persons entitled to attend General Meetings, alone or together representing at least one per cent. of the issued share capital or representing the amount of market capitalisation set by law (at present being €50 million). Such request must have been received by the Company not later than on the sixtieth day prior to that of the meeting.

Extraordinary General Meetings must be convened whenever the Board of Management or the Supervisory Board deems such necessary. In addition, shareholders who individually or together hold to at least one tenth of the total issued capital, may, stating the subjects to be discussed, request the Board of Management or the Supervisory Board to convene an extraordinary General Meeting. If the Board of Management or the Supervisory Board has not convened a meeting within four weeks in such a manner that the meeting can be held within six weeks after the request, the persons who made the request shall be authorised to convene a meeting themselves, subject to the applicable Dutch Civil Code provisions.

Unless the Supervisory Board has designated another person to act as chairman of a General Meeting, the General Meetings shall be presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman of the Supervisory Board; in the event that the latter is also absent, the Supervisory Board members present shall elect a chairman from this number. If the chairman has not been appointed in accordance with the previous sentence, the meeting shall itself choose a chairman. Until that moment a member of the Board of Management shall act as chairman and in the absence of such a member the eldest person present at the meeting shall act as chairman.

All shareholders and other persons entitled pursuant to Dutch law or the Articles to attend and/or vote at General Meetings are entitled to attend General Meetings, to address the General Meeting and if applicable to vote. The chairman of the General Meeting shall decide on the admittance of persons other than those mentioned in the previous sentence. Shareholders may be represented at General Meetings by written proxy duly executed and legalised in accordance with the laws of the country where the proxy is issued. Subject to the prior approval of the Supervisory Board, the Board of Management shall be authorised to set a record date as referred to in article 2:119 of the Dutch Civil Code.

Members of the Board of Management and the Supervisory Board are authorised to attend General Meetings and have the right to give advice in the General Meeting.

Resolutions of shareholders may also be adopted in writing without recourse to a General Meeting, provided they are adopted by unanimous vote representing the entire issued capital.

Voting rights

Each ordinary share confers the right to cast one vote at the General Meeting. There are no restrictions, either under Dutch law or in the Articles, on the right of non-residents of The Netherlands or foreign owners to hold or vote the Ordinary Shares, other than those also imposed on residents. In order to be validly passed, resolutions need to be adopted by at least a simple majority of the votes cast in a meeting where more than half of the issued share capital is present or represented, provided that such majority represents at least half of the issued share capital of the Company, unless Dutch law or the Articles prescribe a greater majority.

If in an election of persons a majority is not obtained, a second vote shall be taken. If votes in such second vote are equal in an election between two persons, it shall be decided by lot who is elected. If there is a tie of votes in a vote other than a vote for the election of persons, the proposal is thus rejected. The chairman's decision at the General Meeting on the result of a vote shall be final and binding.

Statutory financial statements and statutory auditor

The financial year of the Company coincides with the calendar year. The Board of Management must prepare the annual accounts within five months after the end of the financial year. The five-month period may be extended by not more than six months by the General Meeting for exceptional circumstances. The annual accounts must be made available for inspection by shareholders at the offices of the Company within the same period.

Subject to Dutch law, the annual accounts must be accompanied by an auditors' certificate, an annual report and certain other mandatory information. The General Meeting shall appoint an accountant to audit the annual accounts. The General Meeting shall adopt the annual accounts.

Determination of, without limitation, such matters as the amount of profit and loss, the size of the distributable reserves, and whether it is allowed to repurchase Ordinary Shares or depository receipt issued for Ordinary Shares, must be made on the basis of the Company's statutory annual accounts prepared using IFRS.

Profit and loss

After adoption of the annual accounts which show that a distribution of profits is allowed, the General Meeting, on proposal of the Supervisory Board, shall determine which part of the profits earned in a financial year shall be added to the reserves and the allocation of the remaining profits.

The Company may only make distributions to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves to be maintained pursuant to Dutch law. Distribution of profits shall take place after the adoption of the annual accounts. A loss may only be applied against reserves maintained pursuant to Dutch law to the extent permitted by Dutch law. On proposal of the Supervisory Board, the General Meeting may resolve to pay an interim dividend, subject to the provisions of Dutch law to the extent that its equity exceeds the total amount of its issued share capital and the reserves to be maintained pursuant to Dutch law, as appears from interim Financial Statements to be signed by all members of the Board of Management. On proposal of the Supervisory Board, the General Meeting may, subject to the provisions of Dutch law, resolve to make payments to the charge of any reserve which need not to be maintained by virtue of the law.

A claim of a shareholder for payment of a dividend must be made within five years of the relevant payment date otherwise it will lapse.

Merger, demerger, amendment of articles, dissolution

When a proposal of the Board of Management to merge, demerge, amend the Articles or to dissolve the Company is to be made to the General Meeting, this must be mentioned in the notification of the General Meeting and if it regards an amendment of the Articles, a copy of the proposal including the text of the proposed amendment must at the same time be deposited and held available at the Company's office for inspection by the shareholders and the holders of depository receipt of Ordinary Shares until the end of the meeting.

Liquidation

In the event of dissolution of the Company by virtue of a resolution of the General Meeting the members of the Board of Management shall be charged with the liquidation of the business of the Company and the Supervisory Board with the supervision thereof. The balance of the Company remaining after payment of debts shall be transferred to the shareholders in proportion to the aggregate nominal amount of their Ordinary Shares.

Board practices

Supervisory Board

Pursuant to the Articles, the Supervisory Board (*Raad van Commissarissen*) supervises the management of the Board of Management and the general course of affairs and the business of the Company. The Supervisory Board

advises the Board of Management. In performing their duties, the Supervisory Board members shall act in accordance with the interests of the Company and of the business connected with it. Certain resolutions of the Board of Management identified in the Articles require the approval of the Supervisory Board.

The Supervisory Board shall elect a chairman from among its members, and a deputy chairman who shall take the place of the chairman in the latter's absence. The Supervisory Board shall meet whenever, any one Supervisory Board member, or the Board of Management deems necessary. The Supervisory Board shall meet together with the Board of Management as often as the Supervisory Board or any Director A deems such necessary.

The Supervisory Board adopts resolutions by a majority of the votes cast at a meeting at which at least half of the members of the Supervisory Board in office are present or represented. Certain resolutions of the Supervisory Board identified in the Articles can only be adopted by a majority of three quarters of the votes cast in a meeting in which at least three-fifths of the members of the Supervisory Board are present or represented. The Supervisory Board may adopt resolutions in writing without holding a meeting, provided they are adopted unanimously by all Supervisory Board members.

The General Meeting shall appoint the members of the Supervisory Board from a list of nominees, containing names of at least two persons for each vacancy, to be drawn up by the Supervisory Board. As soon as a function of a member of the Supervisory Board is or becomes vacant, the Board of Management shall request the Supervisory Board in writing to draw up a list of nominees. A list of nominees drawn up within four weeks after the Board of Management's written request by the Supervisory Board shall be binding to the General Meeting unless the General Meeting by resolution adopted with a majority of two-thirds of the votes cast, representing more than half of the issued capital otherwise decides. If the Supervisory Board does not draw up a list of nominees in time, the General Meeting shall be authorised to appoint the members of the Supervisory Board at its own discretion.

Pursuant to the Articles, the General Meeting is entitled to dismiss or suspend members of the Supervisory board. The General Meeting determines the number of members of the Supervisory Board. The General Meeting determines the remuneration of the members of the Supervisory Board.

At least once a year, the Board of Management shall inform the Supervisory Board in writing about the general course of affairs in respect of the general, strategic and financial risks and the control and monitoring mechanism (*beheers- en controlesysteem*) of the Company.

Board of Management

Pursuant to the Articles, the Board of Management (*Raad van Bestuur*) is responsible for the management of the Company. Pursuant to the Articles, only the Board of Management jointly is authorised to represent the Company. On proposal of the Supervisory Board, the Board of Management may appoint authorised representatives (including members of the Board of Management) with general or limited power to represent the Company (*procuratiehouders*). Each of these authorised representatives shall be able to represent the Company with due observance of any restrictions imposed on him. In the event of a conflict of interest between the Company and a member or all members of the Board of Management, the Company shall be represented by such member of the Supervisory Board as the Supervisory Board shall designate for this purpose. The General Meeting shall at all times be competent to designate one or more other persons for this purpose.

The Board of Management may adopt resolutions with a simple majority in a meeting where all Directors A are present or represented or unanimously in writing without a meeting. If there is a tie of votes, the relevant question shall be addressed to the Supervisory Board. Resolutions of the Board of Management having an important impact on the identity or nature of the Company or its business shall be subject to the prior approval of the General Meeting. Further, certain other resolutions of the Board of Management are subject to the prior approval of the Supervisory Board.

Pursuant to the Articles, the management of the Company shall be constituted by a Board of Management consisting of two or more Directors A, one Director B and one possibly Director C. The number of members shall be determined by the General Meeting. The General Meeting shall appoint the members of the Board of Management from a list of nominees, containing names of at least two persons for each vacancy, to be drawn up by the Supervisory Board. As soon as a function of a member of the Board of Management is or becomes vacant,

the Board of Management shall request the Supervisory Board in writing to draw up a list of nominees. A list of nominees drawn up within four weeks after having received a written request thereto by the Supervisory Board shall be binding to the General Meeting. The General Meeting, however, may deprive the list of nominees of its binding character by resolution adopted with a majority of two-thirds of the votes cast, representing more than half of the issued capital. If the Supervisory Board does not draw up a list of nominees in time, the General Meeting shall be authorised to appoint the members of the Board of Management at its own discretion.

Members of the Board of Management shall be appointed for a period of up to four years. Re-appointment is possible, but each time for a period of up to four years. The Supervisory Board shall determine the titles of the members of the Board of Management. One of the Directors A shall have the title of Chief Executive Officer (“CEO”) and another Director A shall have the title of Chief Financial Officer (“CFO”). The Supervisory Board shall determine the remuneration and further conditions of employment for each member of the Board of Management, within the remuneration policy adopted by the General Meeting on proposal of the Supervisory Board. The granting of options or option plans to members of the Board of Management is subject to the approval of the General Meeting. Both individuals and legal entities can serve as members of the Board of Management.

Pursuant to the Articles, the General Meeting is entitled to dismiss or suspend members of the Board of Management. In addition, the Supervisory Board is entitled to suspend members of the Board of Management.

Corporate Governance Committee

On 9 December 2003, a committee commissioned by the Dutch government (*Commissie Tabaksblat*) published a Dutch corporate governance code. The provisions of the code took effect on 1 January 2004. Some of the code’s best practice provisions have been incorporated into Dutch law, including the obligation for companies to discuss in their annual report in detail the points on which they do not comply with the code, explaining the reasons for doing so.

Best practice provision III.2.1 of the code prescribes that the Supervisory Board consists of independent persons, except for one member. This provision is not complied with, as, currently, there is only one independent member of the Supervisory Board. The Company intends to appoint a second independent member of the Supervisory Board in 2006.

Information to General Meeting

Pursuant to the Board of Management Rules, the Board of Management must provide the General Meeting with all information that it may require, unless important interests of the Company or any law, rule or regulation applicable to the Company would prevent it from doing so. Pursuant to the Supervisory Board Rules, the Supervisory Board must inform the General Meeting by means of a circular for shareholders of all facts and circumstances relevant to the items on the agenda. It must also provide the General Meeting with all information that the latter may require concerning an item on the agenda, unless important interests of the Company or any law, rule or regulation applicable to the Company would prevent it from doing so. Circulars for shareholders will be posted on the Company’s website.

Potential mandatory offer rules

The directive of the European Parliament and of the Council of the European Union (the “Council”) on takeover bids (the “Take-Over Directive”) was adopted by the Council on 30 March 2004 and became effective on 20 May 2004. The Directive applies to all companies governed by the laws of a European Union member state of which all or some securities are admitted to trading on a regulated market in one or more member states. Pursuant to the Directive, a person holding securities in such a company that, when added to any existing holdings and the holdings of persons acting in concert with him, directly or indirectly give him control of that company, is required to make a public offer to all the holders of those securities for all their holdings at an equitable price. The laws of the member state in which the company has its registered office will determine what percentage of the voting rights in that company is regarded as conferring control over the company and the method of calculation of such percentage. On 31 March 2005, the Dutch government published its draft proposal for the implementation of the Take-Over Directive (the “Proposal”). The Proposal requires that a public offer be made at a percentage of 30 per cent. or more of either the Ordinary Shares or the voting rights. The Proposal excludes controlling interests in existence as of the date of the new legislation enters into force.

The Directive must be implemented into the laws of The Netherlands not later than 20 May 2006.

Dutch squeeze-out proceedings

If a person or company or group companies (the “Controlling Entity”) holds in total 95 per cent. of a company’s issued share capital by nominal value for their own account, Dutch law permits the Controlling Entity to acquire the remaining ordinary shares in the Controlled Entity by initiating proceedings against the holders of the remaining ordinary shares. The price to be paid for such ordinary shares will be determined by the Enterprise Chamber of the Amsterdam Court of Appeal. A shareholder who holds less than 95 per cent. of the ordinary shares, but in practice controls the Controlled Entity’s general meeting of shareholders, could attempt through a legal merger with another business or by subscribing to additional ordinary shares in the Controlled Entity (for example, in exchange for a contribution of part of its own business) or through any other form of restructuring to raise its interest to 95 per cent.

Significant ownership of shares

Holders of Shares or GDRs may be subject to reporting obligations under the Dutch 1996 Act on Disclosure of Holdings in Listed Companies (*Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996*) (the “Disclosure Act”) and the Dutch 1995 Act on the Supervision of the Securities Trade (*Wet toezicht effectenverkeer 1995*) (the “Dutch Securities Act”). Pursuant to the Disclosure Act, any person who holds an interest in the capital or voting rights of the Company at the time of the GDRs being admitted to trading on the London Stock Exchange, must give written notice to the Company and, by means of a standard form, the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) (the “AFM”) within four weeks of the GDRs being admitted to listing, unless such person holds less than 5 per cent. in the capital or voting rights of the Company. In addition, any person who, directly or indirectly, acquires or disposes of an interest in the capital or voting rights of the Company must immediately give written notice to the Company and, by means of a standard form, the AFM if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person falls within a different percentage range as compared with the percentage range applicable to the capital interest or voting rights held by such person prior to the acquisition or disposal. The percentage ranges referred to in the Disclosure Act are 0 per cent. to 5 per cent., 5 per cent. to 10 per cent., 10 per cent. to 25 per cent., 25 per cent. to 50 per cent., 50 per cent. to 66⅔ per cent. and 66⅔ per cent. or more.

On 3 July 2003, a draft bill to amend the Disclosure Act was submitted to the Second Chamber of the Dutch Parliament. According to the explanatory notes to the draft bill, it is anticipated that the following percentage ranges will be introduced: 0 per cent. to 5 per cent., 5 per cent. to 10 per cent., 10 per cent. to 15 per cent., 15 per cent. to 20 per cent., 20 per cent. to 25 per cent., and 25 per cent. or more. Under the draft bill, above 25 per cent., all direct or indirect transactions in the share capital or voting rights must be reported.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must be taken into account: (i) Ordinary Shares (or depositary receipts for Ordinary Shares or GDRs) directly held (or acquired or disposed of) by any person; (ii) Ordinary Shares (or depositary receipts for Ordinary Shares or GDRs) held (or acquired or disposed of) indirectly held by such person (e.g., through a company); (iii) Ordinary Shares (or depositary receipts for Ordinary Shares or GDRs) held by a third party for such person’s account or by a third party with whom such person has concluded an oral or written voting agreement; and (iv) Ordinary Shares (or depositary receipts for Ordinary Shares or GDRs) which such person (directly or indirectly) or third party referred to above, may acquire pursuant to any option or other right to acquire Ordinary Shares (or depositary receipts for Ordinary Shares). Special rules apply to the attribution of Ordinary Shares (or depositary receipts for Ordinary Shares or GDRs) which are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of Ordinary Shares (or depositary receipts for Ordinary Shares or GDRs) can also be subject to the reporting obligations, if such person has, or can acquire, the right to vote the Ordinary Shares or, in case of depositary receipts or GDRs, the underlying Ordinary Shares. The acquisition or (conditional) voting rights by a pledgee or beneficial owner may also trigger the reporting obligations as if such pledgee or beneficial owner were the legal holder of the Ordinary Shares (or depositary receipts for the Ordinary Shares or GDRs).

In addition, pursuant to the Dutch Securities Act and a decree based thereon, a shareholder who directly or indirectly holds a capital interest of more than 25 per cent. in the capital of the Company must, by means of a standard form, within ten days after the month in which the transaction is executed, notify to the AFM transactions in the Ordinary Shares or securities the value of which is co-dependent on the value of the Ordinary Shares (including, without limitation, an acquisition or disposal of the Ordinary Shares or depositary receipts issued for the Ordinary Shares issued by the Company or GDRs). If the reporting shareholder is a legal entity and not an individual, the obligations under the Dutch Securities Act also apply to members of the board of

management and the supervisory board. In addition, the obligations apply to the following persons related to a 25 per cent. shareholder (if the 25 per cent. shareholder is not a legal entity): (i) spouses; (ii) relations by blood or affinity to the first degree and other persons who share a household with these persons; and (iii) relations by blood or affinity to the first degree who do not share a household with these persons but hold at least 5 per cent. of the Ordinary Shares (and/or depositary receipts for the Ordinary Shares and/or GDRs) in the capital of the Company or will obtain this percentage through the transaction.

The AFM keeps a public registry of and publishes all notifications made pursuant to the Disclosure Act and the Dutch Securities Act.

Non-compliance with the reporting obligations under the Disclosure Act or the Dutch Securities Act could lead to criminal fines, administrative fines, imprisonment or other sanctions. In addition, non-compliance with the reporting obligations under the Disclosure Act may lead to civil sanctions, including (i) a general suspension of voting rights in respect of the Ordinary Shares, or Ordinary Shares underlying any GDRs or other depositary receipts, for a period of up to three years; and/or (ii) a court order prohibiting a person from (acquiring or) exercising voting rights in respect of the Ordinary Shares, or Ordinary Shares underlying any GDRs or other depositary receipts, for a period of up to five years.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts (“GDRs”) represented by this certificate are each issued in respect of 0.25 ordinary shares of par value EUR 1.00 each (the “Shares”) in Pyaterochka Holding NV (the “Company”) pursuant to and subject to an agreement dated on or about 11 May 2005, and made between the Company and The Bank of New York in its capacity as depositary (the “Depositary”) for the “Regulation S Facility” and for the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Securities Services as custodian (the “Custodian”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “Deposited Shares”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions of the GDRs (the “Conditions”), references to the “Depositary” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, and references to the “Custodian” are to ING Securities Services or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of Amsterdam or such other location of the head office of the Custodian in The Netherlands as may be designated by the Custodian with the approval of the Depositary (if outside the city of Amsterdam) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The Global Offering comprises 45,968,144 GDRs representing 11,492,036 Shares to be sold by the Selling Shareholder with an Offer Price of US\$13.00 per GDR. It is expected that Listing of the GDRs will take place on or about 11 May 2005 subject only to the issue of the Master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 11 May 2005. Transactions will normally be effected for settlement in US dollars and for delivery on the third working day after the day of the transaction. The admission of the GDRs to the Official List of the UK Listing Authority and to trading on the London Stock Exchange’s Market for Listed Securities is conditional upon the issuance of the GDRs by the Depositary.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the master GDR.

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “Register”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement, have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

- 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to

the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or The Netherlands of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however, that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in The Netherlands of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the

Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs, from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States.

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act (“QIB”)) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under “Transfer Restrictions, Selling Restrictions and Settlement”.

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs, or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a “Pre-Release”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “Pre-Releasee”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as

security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a US Securities Exchange or quoted in a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each representing 0.25 Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs represented by the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit

Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11, PROVIDED THAT:

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1 (iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs, or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if, and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Euro or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if, and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if, and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (iv)
 - (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “Primary GDR Rights Offering”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“Additional GDR Rights”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the “Instruction Date”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“Additional GDR Rights Requests”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “Maximum Additional Subscription”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“Unsubscribed Rights”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in Euro or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).
 - (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder’s Additional GDR Rights Request.

- (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Dutch counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgment of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgment any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency

received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

- 9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Luxembourg or Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Dutch and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in The Netherlands in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10, or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable, to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities representing any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall where assistance is reasonably requested by the Company, and such assistance does not

require the Depositary to take any action in conflict with market practice or in a capacity other than its capacity as Depositary, at the expense of the Company make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

- 12.1 Holders will have the right to instruct the Depositary with regard to the exercise of voting rights with respect to the Deposited Shares in accordance with this Condition 12. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to procure the appointment of a representative to attend the relevant meeting and vote on behalf of the registered owner of the Deposited Shares.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Dutch law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Dutch law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.
- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Dutch law or the Depositary determines that it is not reasonably practicable to vote or cause to be

voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Dutch law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.
- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Dutch law.
- 12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may for the account of the Holder discharge the same out of the proceeds of sale on any Stock Exchange on which the Shares may from time to time be listed, and subject to all applicable laws and regulations, of any appropriate number of Deposited Shares or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions, and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of The Netherlands or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of a GDR or any other person with an interest in any GDR by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a

GDR or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs, or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and (subject to Condition 14.13 below) the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a Director of the Company or such other certificate from persons specified in

- Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.
- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Dutch law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of

GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: US\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
- (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
- (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US\$0.02 or less per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not represented by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
- (vi) for transferring interest from and between the Regulations S Master GDR and the Rule 144A Master GDR: a fee of US\$0.05 or less per GDR;
- (vii) a fee of US\$0.02 or less per GDR for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below, *provided however* that no fee will be assessed under this provision to the extent a fee of US\$0.02 per GDR was charged in such calendar year pursuant to paragraph (iv) above; and
- (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges, costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

- 17.1 The Depositary shall be entitled to appoint one or more agents (the “Agents”) for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use its best endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its best endeavours with the reasonable assistance of the Depositary (provided at the Company’s expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary. PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days’ prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian’s resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in The Netherlands, if any), which shall, upon acceptance of such appointment and the expiry of any applicable notice period become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in The Netherlands, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

- 20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days’ prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days’ prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

- 20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

- 21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.
- 21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender and otherwise in accordance with the Deposit Agreement.
- 21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given.

During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

- 23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.
- 23.3 So long as GDRs are listed on the Official List of the UK Listing Authority and admitted for trading on the London Stock Exchange and the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the United Kingdom (which is expected to be the *Financial Times*).

24. Reports and Information on the Company

- 24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:-
- (i) in respect of the financial year ending on 31 December 2004 and in respect of each financial year thereafter, the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of such financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, prepared in conformity with generally accepted accounting principles in The Netherlands or International Financial Reporting Standards and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;
 - (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than four months after the end of the period to which they relate; and
 - (ii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than 45 days after the end of the period to which they relate.

- 24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 24.3 For so long as any of the GDRs remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary in English on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

- 28.1 The Deposit Agreement and the GDRs are governed by and shall be construed in accordance with English law except that the certifications set forth in Schedule 3 and Schedule 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Dutch law. The Company has submitted in respect of the Deposit Agreement and the Deed

Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

- 28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011, United States as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a “Dispute”) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“Proceedings”) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal court sitting in The Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL, United Kingdom as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with the Bank of New York, London Branch as a common depository for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depository (Nominees) Limited. The Master Rule 144A will be registered in the name of Cede & Co as nominee for DTC and will be held by The Bank of New York, London branch, as Custodian for DTC. The Master Regulation S GDR and the Master Rule 144A GDR contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the conditions of the GDRs set out in this Offering Circular. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depository will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 days in the event that:

- (i) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC, or any successor to DTC (in the case of the Master Rule 144A GDR) advises the Company in writing at any time that it is unwilling or unable to continue as depository and a successor depository is not appointed within 90 calendar days; or
- (ii) Euroclear or Clearstream, Luxembourg (in the case of the Master Regulation S GDR) or DTC (in the case of the Master Rule 144A GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depository is available within 45 days; or
- (iii) in the case of the Master Rule 144A GDR, DTC or any successor ceases to be a “clearing agency” registered under the Exchange Act; or
- (iv) The Depository has determined that, on the occasion of the next payment in respect of the GDRs, the Depository or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depository shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Clause 4 of the Deposit Agreement, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depository on the register maintained by the Depository whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depository pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, distributions and voting rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR be made by the Depository through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depository through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. A free distribution or rights issue of Shares to the Depository on behalf of the Holders will result in the record maintained by the Depository being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, and relating to the surrender of a Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of a nominee of the common depositary for Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to DTC, Euroclear and Clearstream, Luxembourg for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23. So long as GDRs are listed on the Official List and admitted for trading on the London Stock Exchange, and the UK Listing Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

The Master GDRs shall be governed by and construed in accordance with English law.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York by a special act of the New York State legislature. It is a wholly owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, New York 10286, United States. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent Financial Statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286, United States and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom. The Depositary is validly incorporated.

REGULATION OF REAL ESTATE AND GROCERY RETAIL IN RUSSIA

Regulation of grocery retail

The grocery retail industry in Russia is regulated by general legislation and specialised legislation that includes quality standards, safety and sanitary rules and planning and construction regulations. A number of permits and approvals related to health and safety, fire protection and other consents is required in order to open a new store. Application procedures for these permits and approvals are time consuming. Pyaterochka's business may not always be in full compliance with all applicable legislation and regulations.

State bodies involved

In addition to the state bodies and their subdivisions having authority over general matters such as taxation, there are a number of state bodies, which concentrate on grocery retail industry regulation and supervision. One of the most important state bodies in the area of grocery retail industry regulation and supervision is the Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare (the "Service"). The Service is the principal federal body authorised to supervise sanitary and epidemiological issues in Russia. The Service is subordinate to, and supervised by, the Ministry of Health Protection and Social Development. The Service supervises and controls observance of sanitary and epidemiological legislation and consumer rights protection.

Applicable legislation

Russian legislation regulating the grocery retail market includes the following:

The Federal Law on Protection of Consumers' Rights No. 2300-1 of 7 February 1992 (as amended) establishes a general framework for the relationship between retailers (producers) and consumers, declares rights of customers and sets forth liability for their violation. It also provides that any limitation of such consumer rights in a contract is invalid.

The Federal Law on Quality and Safety of Food Products No. 29-FZ of 2 January 2000 (as amended) establishes a general framework for ensuring that food products conform to certain quality, safety and sanitary requirements. It also establishes general requirements for the packaging, storage, transportation, sale of food products and beverages and for the destruction of poor-quality and unsafe products.

The Federal Law on the Sanitary-Epidemiological Welfare of People No. 52-FZ of 30 March 1999 (as amended) requires food products and beverages to meet sanitary standards and health requirements. Products that do not conform to sanitary rules and health requirements and represent a danger to consumers must be withdrawn immediately from sale.

The Federal Law on Technical Regulation No. 184-FZ of 27 December 2002 provides for the development, enactment, application and enforcement of technical requirements and the development of voluntarily standards relating to operations, storage, transportation, selling and utilisation. Compliance with the obligatory technical regulations is supervised by several authorised state bodies.

The Federal Law on the State Regulation of Manufacture and Circulation of Ethanol, Alcohol and Alcoholic products No. 171-FZ of 22 November 1995 (as amended) establishes a requirement to obtain licence for retail sale of alcohol beverages.

A number of other regulations also apply to the grocery retail industry. For example, requirements for the storage, labelling, transportation and sale of food and beverages are established by state standards, sanitary rules, hygienic requirements and other regulations. Compliance with the obligatory regulations applicable to consumers' protection and the grocery retail industry, including sanitary standards and health requirements and requirements for sale of food products and beverages, is supervised by the Federal Service for the Supervision of Protection of Consumer Rights and Human Welfare.

Licensing

Generally, trade operations in the food industry are not subject to licensing in Russia. However, applicable law requires licences for the retail sale of alcohol beverages. Pyaterochka maintains licenses for retail sale of alcoholic beverages. Currently, almost all of Pyaterochka's stores have such licenses.

Regulation of real estate

Certain provisions of Russian legislation relating to land and other real estate are described below. This description, however, is not complete and is qualified in its entirety by reference to applicable Russian law.

General provisions of Russian law

Russian legislation regulating the ownership and leasehold rights to land plots and other real estate objects includes the Civil Code, the Land Code and other federal and regional laws and regulatory acts. Currently the majority of land in Russia is not privately owned, but is still held by the Russian Federation, Russian regions or local authorities.

Russian law provides for the creation of a unified cadastre that records the details of land plots, such as their measurements and boundaries. As a general rule, only land plots with a state cadastre number may be subject to transactions. Most land in Russia has not yet been incorporated into the cadastre.

All land is categorised as having a particular use, for example agricultural land, land for use by industrial enterprises, power companies, communication companies, security zones, forestry land and reserved land (i.e. land which is owned by the State and which can be transferred to any of the other categories). Land must be used in accordance with its categorised purpose. Under the Land Code, state and municipally owned land plots may be sold or leased to Russian and foreign persons or legal entities. However, certain land plots are withdrawn from circulation and may not be sold or leased (for example, nature reserves and land used for military purposes). Other land plots may be restricted in the sense that they may not be transferred to private ownership, but they may be leased (for example, land of a particular cultural heritage).

The Land Code sets out the principle of a unified approach to land and buildings located on that land, but at the present time, land and buildings are treated separately under Russian law and it is possible for them to be owned by different persons.

Obtaining land plots for construction purposes

It is permitted by Russian law to acquire land held by state or municipal authorities for development and the construction of buildings. The Land Code prohibits refusal by state or local authorities to grant land plots for construction purposes except where the land plot is excluded from alienability or privatisation, or the land plots are reserved for state or municipal needs. Any refusal can be appealed in the Russian courts.

The Land Code draws a distinction between land plots granted for construction purposes with and without prior approval for the location of a building or other facilities on the land. The grant of ownership or lease of land plots for construction purposes without such approval can only be made by tender or auction. A land plot for construction purposes with prior approval for the location of buildings or facilities on the land can be acquired by way of a lease (but not ownership).

Selection of a land plot for construction purposes is made on the basis of an application specifying the intended purpose of the building or facility, its intended location and the estimated size of the land plot. The application may be accompanied by a project feasibility study. The selection results are documented in an act on selection of a land plot for construction purposes. The act on selection must be approved by a decision on prior approval for the building location. This decision is valid for three years and constitutes the basis for the designation of the land plot boundaries and for the state cadastre registration. The decision on prior approval of a building location constitutes the basis for a decision to grant the land plot for construction purposes. The decision to grant, in turn, is the basis for execution of a land plot lease agreement. As a rule, all of the decisions are currently to be taken by the executive bodies of the federal, regional and local authorities in charge of the granting of land plots.

Construction on an allocated land plot may only be carried out after obtaining a construction permit. Obtaining a construction permit is a multistage process which includes approvals and registrations of the project documentation by a number of governmental bodies including architectural and urban development agencies, environmental management and protection agencies and governmental bodies for public health supervision. A permit is issued for a term specified in a project of organisation of construction and may be extended.

Upon completion of construction, the building has to be approved by the special state acceptance committee consisting of representatives of the owner, executive authorities, contractors, construction designers, operating organisation, governmental bodies for public health supervision, state fire supervision service, architecture and urban development agencies, environmental management and protection agencies and other state agencies responsible for monitoring the building. When such approval is granted, the rights to the completed building can undergo state registration. A new Town Planning Code provides that a special permit on putting the building into operation is to be issued by the state or local authority that issues the construction permit for the building. However the correlation of this new provision with the provision on approval by the special state acceptance committee is not clear.

After state registration of the rights to the immovable property constructed on the leased land plot, the owner obtains the exclusive right to acquire the title to such land plot or to obtain it on long-term lease. As a general rule, the lease term applicable to state land plots cannot exceed 49 years.

State registration of rights to immovable property and certain transactions

All rights to immovable property (including land plots and buildings) and related transactions are subject to state registration in the Unified State Register of Rights to Immovable Property and Transactions Therewith. The following require registration: the right of ownership to newly erected buildings and facilities, the right of ownership to land plots, the disposal of immovable property pursuant to a trust, business sale and purchase agreements of immovables, mortgage agreements, land plot and building lease agreements concluded for a term of over one year. Such rights to immovable property only arise at the time of their state registration. Transactions involving immovable property are registered by judicial institutions in the relevant territory where the property is situated. It is possible for members of the public to search the register and to rely on the information contained in the register. However, if a court determines that information from the register turns out to be false a person who enters into a transaction relying on information from the register may lose its rights.

A failure to register a transaction with immovable property which requires state registration within a prescribed period of time results in the transaction being rendered null and void.

Liabilities of land plot owners and leaseholders

Owners and leaseholders of land plots and buildings have to comply with federal, regional and local legislation, which include various environmental, public health, fire, residential and urban planning requirements. The owner of a building will usually bear all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land plot in accordance with its intended use, not cause harm to the environment, assume the liability and financial costs relating to compliance with various land use standards, and not allow the pollution of, littering on or degradation of the land plot. Regional or local legislation, or an investment or lease contract entered into with the local or regional authorities, may also provide for various financial and other liabilities of the owner and leaseholder, such as financing of local engineering, transportation and social infrastructure.

Land and real property taxation

The Corporate Property Tax and Land Fee form a significant part of the tax burden for companies involved in activities in the Russian real estate sector.

Corporate property tax

The tax is established by the Tax Code of the Russian Federation. The payers of the tax are Russian organisations as well as foreign organisations carrying out business activity through permanent establishments in Russia or owning real property in Russia. The tax rate is established by regional authorities of the Russian Federation but may not be higher than 2.2 per cent. Currently, in Moscow and most major regions the tax rate is 2.2 per cent. The taxable base is the average annual net book value (generally calculated as the cost per statutory accounts less statutory depreciation) of the property. In general, the taxable base includes fixed assets, including real estate objects. Land and certain non-productive types of property are specifically excluded. The tax is payable on a quarterly basis.

Land fee

The fee can be charged in the form of a tax or a rent payment, depending on the type of ownership rights.

The general rules for assessment of land tax and its basic rates are established by the Tax Code of the Russian Federation. Citizens and legal entities possessing land plots by rights of ownership, permanent use and lifetime inheritable possession are recognised as taxpayers of land tax. The local authorities of Russia are to define the tax rates (within the limits specified in the Tax Code), the procedure and the time limits for the tax payment. The rate of tax depends on the type of land, although tax rates may not be greater than (in particular) (i) 0.3 per cent. for land plots categorised as land for agricultural use; and (ii) 1.5 per cent. for other land plots. The land tax is payable on an annual basis.

The rules for determining the amount of rent payments and the terms for remittance of rent payments for land owned by the Russian Federation, Russian regions or local authorities are imposed by the relevant public authority. In addition, local authorities are empowered to require payment of a separate fee for the right to conclude a rent agreement.

TAXATION

The following summary of material US federal income, United Kingdom and Dutch tax consequences of ownership of GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Offering Circular. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of GDRs.

EACH PROSPECTIVE HOLDER IS URGED TO CONSULT THEIR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF THE OWNERSHIP AND DISPOSITION OF GDRs, INCLUDING THE APPLICABILITY AND EFFECT OF ANY OTHER TAX LAWS OR TAX TREATIES, AND OF PENDING OR PROPOSED CHANGES IN APPLICABLE TAX LAWS AS OF THE DATE OF THIS OFFERING CIRCULAR, AND OF ANY ACTUAL CHANGES IN APPLICABLE TAX LAWS AFTER SUCH DATE.

United States federal income taxation

The following discussion is a summary based on current law of certain federal income tax considerations relevant to the purchase, ownership and disposition of GDRs. The discussion is not a complete description of all tax considerations that may be relevant to a US Holder (as defined below) and does not consider a US Holder's particular circumstances. It applies only to US Holders who purchase GDRs in the Global Offering, hold the GDRs as capital assets and use the US dollar as their functional currency. It does not address the tax treatment of investors subject to special rules, such as banks, tax-exempt entities, insurance companies, dealers, traders in securities that elect to mark to market, investors liable for alternative minimum tax, US expatriates, investors that directly, indirectly or constructively own 10 per cent. or more of the Company's equity, investors that hold the GDRs in connection with a permanent establishment or fixed base in The Netherlands or investors that hold GDRs as part of a straddle, hedging, conversion or other integrated transaction.

The management of the Company believes, and this discussion assumes, that the Company is not and is unlikely to become a passive foreign investment company ("PFIC"). The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences generally would result for US Holders.

The discussion is only a summary and is not a substitute for tax advice. US Holders are urged to consult their own tax advisors about the particular tax consequences to them of the purchase, ownership and disposition of GDRs.

As used here, a "US Holder" means a beneficial owner of GDRs that is for US federal income tax purposes (i) an individual citizen or resident of the United States; (ii) a corporation or other business entity created or organised under the laws of the United States or its political subdivisions; (iii) an estate the income of which is subject to US federal income tax without regard to its source; or (iv) a trust subject to the primary supervision of a US court and the control of one or more US persons or that has elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in a partnership that holds GDRs will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partners in a partnership should consult their tax advisors concerning the US federal income tax consequences to them of the acquisition, ownership and disposition of GDRs by their partnership.

Assuming the Depositary complies with its obligations, US Holders of GDRs will be treated for US federal income tax purposes as owners of the Shares underlying the GDRs.

Dividends

Subject to the PFIC rules discussed below, dividends on GDRs (including the amount of Dutch tax withheld) will be includable in a US Holder's gross income as ordinary income from foreign sources when the US Holder actually or constructively receives the dividend. The dividends will not be eligible for the dividends received deduction generally allowed to US corporations and will not be eligible for the special reduced rate applicable to qualified dividend income of individual and certain other non-corporate US Holders. The US dollar amount the

US Holder must include will be based on the exchange rate for the currency received (if the dividend is paid in a currency other than US dollars) on the date the US Holders receive the dividend, regardless of whether the US Holder converts the payment into US dollars at that time. The US Holder will have a basis in the currency received equal to the US dollar value on the date of receipt. Any gain or loss the US Holder recognises on a subsequent conversion or disposition of the currency received generally will be treated as ordinary income or loss from US sources.

US Holders that are eligible to claim benefits under the income tax treaty between The Netherlands and the United States (the “Netherlands-US Treaty”) may claim a refund of Dutch withholding tax imposed at a rate higher than the 15 per cent. rate provided in the treaty. Subject to generally applicable limitations, a US Holder may claim a deduction or a foreign tax credit for Dutch tax withheld at the appropriate rate. US Holders should consult their own tax advisers concerning the possibility of claiming refunds of Dutch withholding tax and the availability of foreign tax credits for Dutch tax withheld.

Gains

Subject to the PFIC rules discussed below, when a US Holder disposes of GDRs, it will recognise capital gain or loss in an amount equal to the difference between the amount realised and its adjusted tax basis in the GDRs. The US Holder’s adjusted tax basis in a GDR will generally be the US dollar cost. The US dollar cost of a GDR purchased with foreign currency will generally be the US dollar value of the purchase price paid in the Global Offering. The capital gain or loss generally will be from sources within the United States, and will be long-term capital gain or loss if the US Holder has held the GDRs for at least one year. Deductions for capital losses are subject to limitations.

If a US Holder receives a currency other than US dollars upon disposition of GDRs, it will realise an amount equal to the US dollar value of the currency received on the date of disposition or, if the GDRs are traded on an established securities market and it is a cash-basis or electing accrual basis taxpayer, the settlement date. The US Holder will have a tax basis in the currency received equal to the US dollar amount realised. Gain or loss on a subsequent conversion or disposition of the currency received generally will be US source ordinary income or loss.

Passive Foreign Investment Company considerations

The management of the Company does not believe the Company is or will become a PFIC for US federal income tax purposes, but its possible status as a PFIC must be determined annually and therefore may be subject to change. A non-US corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of subsidiaries that are 25 per cent. or more owned, either (i) at least 75 per cent. of its gross income is passive income; or (ii) 50 per cent. or more of the average value of its assets is attributable to assets that produce passive income or are held to produce passive income.

If the Company were classified as a PFIC, a US Holder could be subject to significantly greater amounts of US tax than would otherwise apply with respect to (i) any gain on the sale or exchange of GDRs or (ii) certain dividends. The US Holder would also be subject to more burdensome US tax reporting obligations. US Holders should consult their tax advisers concerning the application of the PFIC rules to the Company, and alternative tax reporting methods that may be available.

Backup withholding and information reporting

Dividends on GDRs and proceeds from the sale or other disposition of GDRs may be reported to the US Internal Revenue Service (“IRS”) unless the US Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the US Holder fails to (i) provide an accurate taxpayer identification number; or (ii) otherwise establish a basis for exemption. Holders can claim a credit against their US federal income tax liability for amounts withheld, and amounts in excess of the US Holder’s tax liability are refundable provided that the US Holder provides the required information to the IRS.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT THEIR OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE GDRS UNDER THE INVESTOR’S OWN CIRCUMSTANCES.

United Kingdom tax considerations

The comments below are of a general nature and are based on current UK law and published Inland Revenue practice, both of which are subject to change, possibly with retrospective effect. This summary only covers the principal UK tax consequences for the absolute beneficial owners of GDRs who are, except where otherwise stated, resident in the UK for tax purposes. This summary is written on the basis that absolute beneficial owners of GDRs will be treated for UK tax purposes as absolute beneficial owners of the Shares represented by the GDRs and references to GDRs should be read accordingly. The summary:

- (a) only addresses the tax consequences for holders who hold their GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of holders such as, for example, dealers;
- (b) assumes that the holder is not a company which either directly or indirectly controls 10 per cent. or more of the voting power of the Company;
- (c) assumes that there will be no register in the UK in respect of Shares or GDRs and that neither the Shares nor GDRs will be held by, or issued by, as applicable, a depositary located in or incorporated in the UK; and
- (d) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the UK.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and Inland Revenue practice, of acquisition, ownership and disposition of GDRs in their own particular circumstances, by consulting their own tax advisers.

Taxation of dividends

Income tax and corporation tax

Holders who are resident in the UK for tax purposes will, in general, be subject to income tax or corporation tax on the total amount of any dividends received on their GDRs plus any withholding tax on such dividends deducted in The Netherlands.

Withholding tax and tax credits

As described below under “Dutch Tax Considerations”, when the Company pays dividends it will generally be required to withhold 25 per cent. of the gross amount of the dividend paid to holders resident outside The Netherlands and to account for that amount to Dutch tax authorities. Holders who are resident in the UK should generally be able to obtain relief at source or a refund from Dutch tax authorities in respect of an amount equal to 10 per cent. of the gross amount of the dividend under the UK/Dutch Tax Treaty. The remaining 15 per cent. Dutch withholding tax should generally be allowed as a credit against the UK tax liability of a UK resident holder (as described below), but any excess of such Dutch withholding tax over the UK tax payable on the aggregate amount of the dividend and Dutch withholding tax will generally not be refundable.

Tax liability for individual holders

For an individual holder who is liable to UK tax on any dividends paid by the Company at the dividend ordinary rate (currently 10 per cent.), credit for Dutch tax deducted at source will exceed his UK income tax liability in respect of the dividend and he will have no further UK tax to pay. For an individual holder who is liable to UK tax on any such dividend at the dividend upper rate (currently 32.5 per cent.), the UK tax will be chargeable on the gross dividend, with credit allowed for Dutch tax deducted at source at up to 15 per cent. (but not for any Dutch tax suffered at above that rate, except where such tax is not relieved at source or refunded as referred to above and that relief or refund could not have been obtained despite the holder taking all reasonable steps to do so).

Tax liability for corporate shareholders

A holder within the charge to UK corporation tax and resident (for tax purposes) in the UK will be liable for UK corporation tax on the receipt of the gross dividend, with credit allowed for Dutch tax deducted at source at up to

15 per cent. (but not for any Dutch tax suffered at above that rate, except where such tax is not relieved at source or refunded as referred to above and that relief or refund could not have been obtained despite the holder taking all reasonable steps to do so).

Taxation of capital gains

The disposal or deemed disposal of the GDRs by a holder who either:

- (a) is resident or ordinarily resident in the UK for tax purposes; or
- (b) (if not so resident or ordinarily resident) carries on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a company, a permanent establishment) and has used the GDRs in or for the purposes of such trade, profession or vocation or has used or held the GDRs for the purposes of, or has acquired the GDRs for use by or for the purposes of, the branch or agency (or permanent establishment),

may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains, depending on the holder's circumstances and subject to any available exemption or relief. In addition, holders who are individuals and who dispose of their GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK.

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to UK taxation of chargeable gains ("CGT") include the extent to which the holder realises any other capital gains in that year, the extent to which the holder has incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "annual exemption"), and the level of available taper relief.

As regards a holder who is an individual, taper relief will operate to reduce the proportion of any such gain realised on the disposal of the GDRs that is brought into the charge to CGT if the GDRs are held by the holder for at least three years (on the basis that the GDRs constitute non-business assets in the hands of the relevant holder). In the case of non-business assets, a reduction of 5 per cent. of the gain is made for each whole year for which the GDRs have been held in excess of two years up to a maximum reduction of 40 per cent. after ten complete years of holding.

The annual exemption for individuals for the 2005/2006 tax year is £8,500. Under current legislation this exemption is, unless the UK Parliament decides otherwise, increased annually in line with the rate of increase in the retail prices index. Holders should be aware that the UK Parliament is entitled to withdraw this link between the level of the annual exemption and the retail prices index, or even to reduce the level of the annual exemption for future tax years below its current level.

A holder which is a UK resident company is entitled to an indexation allowance that will operate to reduce capital gains to the extent that there is a change in the retail prices index. Indexation allowance may operate to reduce a chargeable gain, but not so as to create an allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty will be payable on the issue or transfer of the GDRs, provided, in the case of a transfer, either that any instrument of transfer is not executed in the UK, or that such instrument, wheresoever executed, does not relate to any property situated, or to any matter or thing done or to be done, in the UK.

No UK stamp duty reserve tax will be payable on the issue or transfer of GDRs.

Netherlands tax considerations

The following is intended as general information only and does not purport to present any comprehensive or complete picture of all Netherlands tax aspects, which could be of relevance to a holder of Shares or GDRs of the Company. Holders and/or prospective holders of Shares or GDRs should consult their tax adviser regarding the tax consequences of any purchase, ownership or disposal of Shares or GDRs.

Corporate and individual income tax

Residents of The Netherlands

A holder of Shares or GDRs which is a corporate entity that is a resident or deemed to be a resident of The Netherlands for Netherlands tax purposes will generally be subject to corporate income tax on any benefits derived or deemed to be derived from the Shares or GDRs (including any capital gains realised on the disposal thereof) unless such holder is eligible for the participation exemption with respect to those Shares or GDRs. The participation exemption is generally available if the holder owns at least 5 per cent. of the Company's nominal paid-up share capital. The current rate of corporate income tax is 31.5 per cent. (27 per cent. for the first €22,689 of taxable income).

An individual holder who is resident or deemed to be a resident in The Netherlands for Netherlands tax purposes (including a non-resident individual who has opted to be taxed as a resident in The Netherlands), is subject to tax in respect of income and gains derived from the Shares or GDRs at progressive rates with a maximum of 52 per cent.) if:

- (a) the holder of Shares or GDRs has an enterprise or an interest in an enterprise, to which the Shares or GDRs are attributable;
- (b) the activities in The Netherlands with respect to the Shares or GDRs exceed "normal active asset management" (normaal actief vermogensbeheer).

An individual holder who is resident or deemed to be a resident in The Netherlands for Netherlands tax purposes (including a non-resident individual who has opted to be taxed as a resident in The Netherlands), is subject to tax in respect of income and gains derived from the Shares or GDRs at a flat rate of 25 per cent. if the holder of the Shares or GDRs or any of his spouse, his partner, a person deemed to be his partner, or other persons sharing such person's house or household, or certain other of such persons' relatives (including foster children), has a substantial interest, as defined in The Netherlands Income Tax Act (Wet inkomstenbelasting 2001) in the Company. A substantial interest is generally present if a holder holds, alone or together with his spouse or certain persons related to or deemed related to that individual, whether directly or indirectly, the ownership of, or certain rights (including the rights to acquire shares, whether or not already issued) over, (a) shares representing 5 per cent. or more of the total issued and outstanding capital (or the issued or outstanding capital of any class of shares) of the Company, (b) profit participating certificates, entitling the holder to 5 per cent. or more of the Company's annual profit or 5 per cent. or more of the liquidation proceeds of the Company. If an individual does not have a substantial interest in the Company, a deemed substantial interest will be present if (part of) a substantial interest has been disposed of, or is deemed to be disposed of, on a non-recognition basis.

In other cases an individual holder of Shares or GDRs, will not be taxable on actual payments on Shares or GDRs and the actual gains realised upon the disposal of Shares or GDRs. Instead, the holder of Shares or GDRs will be taxed at a flat rate of 30 per cent. on deemed income from "savings and investments" (sparen en beleggen). This deemed income amounts to 4 per cent. of the average of the individual's "yield basis" (rendementsgrondslag) at the beginning of the calendar year, and the individual's "yield basis" at the end of the calendar year.

Non-residents of The Netherlands

A holder of Shares or GDRs will not be subject to any Netherlands taxes on income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of Shares or GDRs (other than the withholding tax described below), provided that:

- (i) such holder is neither a resident nor deemed to be a resident of The Netherlands, nor, if he is an individual, has elected to be taxed as a resident of The Netherlands;
- (ii) such holder does not have an enterprise, or an interest in an enterprise, that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands, and to which enterprise or part of an enterprise, as the case may be, the Shares or GDRs are attributable;
- (iii) if such holder is an individual, his activities in The Netherlands with respect to Shares or GDRs do not exceed "normal active asset management" (normaal actief vermogensbeheer);
- (iv) if such holder is an individual, neither such holder nor any of his spouse, his partner, a person deemed to be his partner, or other persons sharing such person's house or household, or certain other of such persons' relatives (including foster children), has a substantial interest, as defined in The Netherlands Income Tax Act

(Wet inkomstenbelasting 2001) in the Company. A substantial interest is generally present if a holder holds, alone or together with his spouse or certain persons related to or deemed related to that individual, whether directly or indirectly, the ownership of, or certain rights (including the rights to acquire shares, whether or not already issued) over, (a) shares representing 5 per cent. or more of the total issued and outstanding capital (or the issued or outstanding capital of any class of shares) of the Company, (b) profit participating certificates entitling the holder to 5 per cent. or more of the Company's annual profit or 5 per cent. or more of the liquidation proceeds of the Company. If an individual does not have a substantial interest in the Company, a deemed substantial interest will be present if (part of) a substantial interest has been disposed of, or is deemed to be disposed of, on a non-recognition basis; and

- (v) if such holder is not an individual, such holder does not have, directly or indirectly, a substantial or a deemed substantial interest, as defined in The Netherlands Income Tax Act 2001 (Wet inkomstenbelasting 2001) in the Company, or, in the event that the holder does have such interest, it forms part of the assets of an enterprise.

Withholding tax

Dividends distributed by the Company are generally subject to withholding tax imposed by The Netherlands at a rate of 25 per cent. Dividends distributed by the Company include, but are not limited to:

- (i) distributions in cash or in kind, deemed and constructive distributions and repayments of paid-in capital not recognised for Netherlands dividend withholding tax purposes;
- (ii) liquidation proceeds, proceeds from the redemption of Shares and GDRs or, as a rule, consideration for the repurchase of Shares and GDRs by the Company in excess of the average paid-in capital recognised for Netherlands dividend withholding tax purposes;
- (iii) the par value of Shares and GDRs issued to a holder of Shares or GDRs or an increase of the par value of Shares, as the case may be, to the extent that it does not appear that a contribution, recognised for Netherlands dividend withholding tax purposes, has been made or will be made; and
- (iv) partial repayment of paid-in capital, recognised for Netherlands dividend withholding tax purposes, if and to the extent that there are net profits (zuivere winst), unless (a) the general meeting of shareholders of the Company has resolved in advance to make such repayment and (b) the nominal value of the Shares and GDRs concerned has been reduced in an equal amount by way of an amendment to the Articles.

A holder of Shares or GDRs who is resident in a country other than The Netherlands, and if a treaty for avoidance of double taxation is in effect between The Netherlands and such country may, depending on the terms of such double taxation treaty, be eligible for a full or partial exemption from, or refund of, Netherlands dividend withholding tax.

According to anti-dividend stripping rules, no exemption from or credit, reduction or refund of, Netherlands dividend withholding tax will be granted if the recipient of the dividend paid by the Company is not considered to be the beneficial owner (uiteindelijk gerechtigde) of such dividends.

Gift tax

Residents of The Netherlands

Gift tax may be due in The Netherlands with respect to an acquisition of the Shares or GDRs by way of a gift by a holder of Shares or GDRs who is resident or deemed to be resident in The Netherlands. Estate tax may be due in The Netherlands with respect to an acquisition of Shares or GDRs on the death of a holder of Shares or GDRs resident or deemed to be resident in The Netherlands, or by way of a gift by a holder of Shares or GDRs resident or deemed to be resident in The Netherlands within 180 days before his death.

For purposes of Netherlands gift and inheritance tax, an individual who holds Netherlands nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death.

For purposes of Netherlands gift and inheritance tax, an individual not holding Netherlands nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the 12 months preceding the date of the gift.

Non-residents of The Netherlands

No gift, estate or inheritance tax will arise in The Netherlands with respect to an acquisition of the Shares or GDRs by way of a gift by, or on the death of, a holder who is neither resident nor deemed to be resident in The Netherlands, unless:

- (i) Such holder at the time of the gift has or at the time of his death had an enterprise, or an interest in an enterprise, that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares or GDRs are or were attributable; or
- (ii) in the case of a gift of the Shares or GDRs by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date gift, while being resident or deemed to be resident in The Netherlands.

Value added tax

No Netherlands Value Added Tax (VAT), sales tax or similar tax will be due in respect of any payment in consideration for the issue of the Shares or GDRs or with respect to any payment by the Company on the Shares or GDRs.

Other taxes

Save for capital tax which will be payable by the Company, no Netherlands registration tax, transfer tax, stamp duty or any other similar tax or duty will be payable in The Netherlands in respect of or in connection with the holding of the Shares or GDRs.

EU Savings Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

SUBSCRIPTION AND SALE

Under the terms of, and subject to, the conditions contained in an Underwriting Agreement dated 6 May 2005 (the “Underwriting Agreement”) entered into among the Company, the Selling Shareholder and the Managers, the Managers named below have severally agreed to procure purchases for, or failing which, themselves to purchase, at the Offer Price, the number of Shares, in the form of GDRs, indicated below. The Selling Shareholder has agreed to make available, at the Offer Price, to the Managers, the number of Shares in the form of GDRs indicated below:

Name	Shares
Credit Suisse First Boston (Europe) Limited	4,973,179
Morgan Stanley & Co. International Limited	4,932,957
U.F.G.I.S. Trading Limited	1,149,203
ING Bank N.V., London Branch	396,475
Joint-stock Bank of the Gas Industry Gazprombank (Closed Joint-stock Company)	40,222
Total	11,492,036

The Underwriting Agreement contains, among others, the following further provisions:

- The Selling Shareholder has granted to Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited, on behalf of the Managers, the Over-allotment Option to acquire up to 1,723,805 additional Ordinary Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Global Offering and to cover short positions resulting from stabilising transactions. The Over-allotment Option is exercisable upon written notice to such Selling Shareholder by Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited, on behalf of the Managers, given at any time from the date hereof up to 30 days following the Closing Date.
- Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited, on behalf of the Managers, will deduct from the proceeds of the Global Offering:
 - (i) costs and expenses incurred by the Managers in connection with the Global Offering up to a maximum of US\$600,000; and
 - (ii) certain commissions payable by the Selling Shareholder, of 3.625 per cent. of an amount equal to the Offer Price multiplied by the number of GDRs representing Shares. Such commissions will equate to a total of US\$21,662,488 with respect to the number of Shares in the form of GDRs indicated in the table above and, with respect to any additional Shares acquired by the Managers as a result of the exercise of the Over-allotment Option, a total of US\$24,911,860 (on the assumption that the Over-allotment Option is exercised in full).
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, among others, the accuracy of the representations and warranties under the Underwriting Agreement and the application for Admission having been approved on or prior to the Closing Date. Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited, on behalf of the Managers, may terminate the Underwriting Agreement prior to Admission in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the condition (financial or otherwise), or in the earnings or business affairs of the Group (taken as a whole) and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, Admission, then the Global Offering will lapse.
- The Company has given customary representations and warranties to the Managers, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the Shares and GDRs and in relation to the contents of this Offering Circular. The Selling Shareholder has given certain warranties to the Managers, including in relation to its capacity, its good title to the Shares and GDRs and its conduct.
- The Company and the Selling Shareholder have given customary indemnities to the Managers in connection with the Global Offering.

Each of the Company and the Shareholders has also agreed with the Managers that, during the period beginning with the date of the Underwriting Agreement and continuing to, and including the date 180 days after the Closing Date, it will not offer, issue, sell, contract to sell, pledge (or charge in respect of the Shareholders), grant options over or otherwise dispose of any of the Company’s securities (or publicly announce any such issuance, offer, sale or disposal) that are substantially similar to the Shares or GDRs, without the prior written consent of Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited, subject to certain exceptions.

In connection with the Global Offering, each of the Managers and any affiliate acting as an investor for its own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Global Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

TRANSFER RESTRICTIONS, SELLING RESTRICTIONS AND SETTLEMENT

Transfer restrictions

Rule 144A GDRs

Each purchaser of Rule 144A GDRs in the Global Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (1) The purchaser (i) is a QIB, (ii) is aware that, and each beneficial owner of such Rule 144A GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB.
- (2) The purchaser is aware the Rule 144A GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act.
- (3) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs or the Shares represented thereby, such Rule 144A GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF PYATEROCHKA HOLDING N.V. REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF PYATEROCHKA HOLDING N.V. THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

- (4) Notwithstanding anything to the contrary in the foregoing, the Shares represented by the Rule 144A GDRs may not be deposited into any depositary receipt facility in respect of the Shares established or maintained by a depositary bank (including any such facility maintained by the Depositary for the Rule 144A GDRs), other than a Rule 144A restricted depositary receipt facility, so long as such Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act.

Prospective purchasers are hereby notified that sellers of the Rule 144A GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S GDRs

Each purchaser of Regulation S GDRs in the Global Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (1) The purchaser (i) is, and the person, if any, for whose account it is acquiring the Regulation S GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not in the business of buying or selling securities or, if it is in such business, it did not acquire the Regulation S GDRs or the Shares represented thereby from the Company or an affiliate thereof in the initial distribution of Regulation S GDRs.
- (2) The purchaser is aware that the Regulation S GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.
- (3) The purchaser will not offer, resell, pledge or otherwise transfer such Regulation S GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.
- (4) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Regulation S GDRs or the Shares represented thereby, such Regulation S GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Regulation S GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF PYATEROCHKA HOLDING N.V. REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

Selling Restrictions

Except to the extent indicated under “United Kingdom” below, no action has been taken or will be taken in any jurisdiction by the Managers or the Company that would permit a public offering of the Shares or GDRs, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Shares or GDRs, in any country or jurisdiction where action for that purpose is required.

United States

The Shares and GDRs have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The GDRs are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that the Managers may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of GDRs within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the GDRs, an offer or sale of GDRs within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this Paragraph have the meaning given to them by Regulation S.

The Netherlands

The Shares and GDRs are not, will not and may not be offered other than to:

- (a) persons who trade or invest in securities in the conduct of their profession or trade within the meaning of Section 2 of the Exemption Regulation to the Netherlands Securities Market Supervision Act 1995, as amended (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*) (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities); and
- (b) persons who are established, domiciled or resident outside The Netherlands.

United Kingdom

The Managers have represented and agreed that (i) they have not offered or sold and, prior to application for listing of the GDRs being made in accordance with Part VI of the FSMA will not offer or sell, any GDRs in the United Kingdom or elsewhere by means of any document (except in circumstances which do not constitute an offer to the public), (ii) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the GDRs in, from or otherwise involving the United Kingdom, and (iii) they have only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by them in connection with Admission of the GDRs other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part VI of the FSMA, to a person who is of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

Russian Federation

The Shares and GDRs have not been registered under the law of the Russian Federation “On the Securities Market” and no statutory prospectus for Shares or GDRs has been filed or registered with any securities regulatory authority of the Russian Federation. The Shares and GDRs may not be advertised in the Russian Federation and should not be offered or sold or otherwise transferred and will not be offered or sold or otherwise transferred as part of their initial distribution or at any time thereafter to any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent permitted under Russian law. No person should at any time carry out any activities in breach of the restrictions set out above.

Japan

Each of the Managers has represented and agreed that it has not offered or sold and will not offer or sell any GDRs, directly or indirectly, in Japan or to or for the account of any resident of Japan except (A) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (B) in compliance with any other applicable requirements of Japanese law.

Settlement

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of

internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation – United States Federal Income Taxation."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for the Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, and Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary

will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Global clearance and settlement procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary market trading

Transfer restrictions

For a description of the transfer restrictions relating to the GDRs, see “– Transfer Restrictions”.

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between Clearstream, Luxembourg/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least

one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INDEPENDENT AUDITORS

The Financial Statements and related notes prepared in accordance with IFRS as at and for the years ended 31 December 2004, 2003 and 2002 have been audited by the independent auditors, ZAO Deloitte & Touche CIS, of 4/7-2 Vozdvizhenka St., Moscow 125009, Russian Federation. The reports of ZAO Deloitte & Touche CIS, which are without qualification or reference to a matter of fundamental uncertainty, have been included in this Offering Circular in the form and context in which they appear with the consent of ZAO Deloitte & Touche CIS who have authorised the contents of that part of this Offering Circular comprising their reports for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

OBTAINING INFORMATION ABOUT THE COMPANY

In accordance with Dutch law, the Company's accounts and the Articles are available from the trade register of the Chamber of Commerce and Industry in Amsterdam, The Netherlands. The Company also makes these documents available at its registered office located at Rokin 55, 1012 KK Amsterdam, The Netherlands. The Articles require the Company to make its annual accounts, annual statutory report and auditors' statutory report available to its shareholders at its registered office from the day on which notice of the annual shareholders' meeting is given until the close of the meeting. In addition, the Company must send these documents to registered shareholders at the same time as the notice convening the meeting. Holders of the certificated GDRs will not automatically be sent these documents. Each holder of certificated GDRs may, however, obtain a copy of these items, without charge, by presenting his or her certificated GDRs at the locations specified in the notice of meeting. Future Group consolidated and statutory annual reports will be made available at the Company's head offices. Any interested party may, upon written request, obtain a copy of these items without charge. Neither such document nor the information included on the Company's website forms part of this Offering Circular.

The Company does not currently file reports under Section 13 or 15(d) of the Exchange Act. In addition, the Company does not furnish any information to the US Securities and Exchange Commission (the "SEC") so as to qualify for the exemption described in Rule 12g3-2(b) under the Exchange Act. Accordingly, as required by Rule 144A(d)(4) under the Securities Act, the Company will furnish specified information to any shareholder, holder of a beneficial interest in shares, or prospective purchaser designated by a shareholder or holder of a beneficial interest, who requests it from the Company in writing. If and when the Company is exempt under Rule 12g3-2(b) under the Exchange Act from filing requirements under Section 13 or 15(d) of the Exchange Act, it will no longer need to deliver this information.

GENERAL INFORMATION

1. The Company was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands by notarial deed dated 13 August 1975. On 28 May 2004, the Company was converted into a public limited liability company (*naamloze vennootschap*) and the Company's name was changed to Pyaterochka Holding N.V. The address of the Company is Rokin 55, 1012 KK Amsterdam, The Netherlands. The Company is registered in the commercial register of the Chamber of Commerce and Industry for Amsterdam under the number 33143036.
2. On 5 May 2005, the Board of Management resolved among other things to enter into the Underwriting Agreement, the Deposit Agreement and the Deed Poll and to make an application to the UK Listing Authority for the GDRs to be admitted to the Official List of the UK Listing Authority and for the GDRs to be admitted to trading on the London Stock Exchange's Market for Listed Securities.

All consents, approvals, authorisations or other orders required for the issue of the GDRs under the prevailing laws of The Netherlands have been given or obtained.

3. It is expected that Listing of the GDRs will take place on or about 11 May 2005 subject only to the issue of the Master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 6 May 2005. Transactions will normally be effected for settlement in US dollars and for delivery on the third working day after the day of the transaction. The admission of the GDRs to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Market for Listed Securities is conditional upon the issuance of the GDRs by the Depositary.
4. Except as disclosed herein, there has been no significant change in the financial or trading position of the Company or the Group since 31 December 2004 (the date to which the last audited combined and consolidated financial statements have been published) and no material adverse change in the financial position or prospects of the Group since 31 December 2004 (the date to which the last audited combined and consolidated financial statements have been published).
5. The Group is not and has not been involved in any legal proceeding or arbitration proceedings that may have or have had since 31 December 2004 a significant effect on the financial position of the Company or Group; the Company is not aware that any such proceedings are pending or threatened.
6. In the event that certificates in definitive form are issued in respect of the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.
7. Copies of the following documents may be inspected at Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS, United Kingdom during usual business hours on any weekday (Saturday, Sunday and public holidays excepted), for 14 days from the date of this Offering Circular:
 - (a) the Articles (together with an English translation);
 - (b) the Financial Statements audited in accordance with IFRS for the years ended 31 December 2004, 2003 and 2002, together with the report of ZAO Deloitte & Touche CIS contained therein;
 - (c) the Deposit Agreement (or a draft pending execution);
 - (d) the Deed Poll (or a draft pending execution); and
 - (e) the Underwriting Agreement.
8. The Company has taken appropriate measures to comply with the regulations on insider trading pursuant to the Dutch Securities Act.
9. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Global Offering.
10. Holders of GDRs can contact the Depositary at 101 Barclay Street, 22nd Floor, New York, New York 10286, United States (telephone + 1 212 815 4493) or through The Bank of New York, London branch, One Canada Square, London E14 5AL, United Kingdom (telephone +44 207 964 6355).

SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND US GAAP

The Financial Statements of the Group have been prepared in accordance with IFRS, which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. There are some significant differences between IFRS and US GAAP.

The following section summarises a number of differences between IFRS and US GAAP with respect to the determination of the Group’s combined shareholders’ equity as at 31 December 2004, 2003 and 2002 and the results of its operations for each of the three years ended 31 December 2004, 2003 and 2002. This summary does not address disclosure, classification or presentation differences other than the presentation of extraordinary items and components of shareholders’ equity.

The differences described below do not take into account the changes resulting from the introduction of the new IFRS and US GAAP standards. In particular, the International Accounting Standards Board has recently issued a number of new IFRS standards and significantly amended many existing International Accounting Standards in preparation for the adoption of IFRS by listed companies in the European Union in 2005. These changes would become effective for accounting periods beginning on or after 1 January 2005. The Group has not yet determined the effect of such changes on its financial position and results of operations reported under IFRS.

The Group has not prepared a complete reconciliation of its consolidated financial information and related footnote disclosure between IFRS and US GAAP and has not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFRS and US GAAP is complete or accurate. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and US GAAP, and how these differences might affect the financial information in this offering circular.

Hyperinflationary accounting

Before 1 January 2003, the Russian economy was considered to be a hyperinflationary economy in terms of IAS No. 29 “Financial Reporting in Hyperinflationary Economies”. Accordingly, the non-monetary assets and liabilities, as well as components of shareholders’ equity for those periods have been restated to account for changes in the general purchasing power of the Rouble and, as a result, are stated in terms of the measurement unit current as of 31 December 2002. The gain (loss) on the net monetary position, i.e. the difference resulting from the restatement of non-monetary assets, owners’ equity and income statement items, is included in net income.

Under US GAAP, in accordance with Statement of Financial Accounting Standards No. 52, “Foreign Currency Translation”, due to a highly inflationary economy in Russia, the US dollar would have to be designated as the Group’s functional currency. Accordingly, all Rouble amounts would have to be translated into US dollars using the remeasurement method, i.e. non-monetary balance sheet items and related income statement accounts should be remeasured using historical rates in order to produce the same result in terms of the functional currency that would have occurred if those items had been initially recorded in the functional currency.

Definition of a subsidiary

Under IFRS, the focus is placed on control in determining whether a parent/subsidiary relationship exists. Control is the parent’s ability to govern the financial and operating policies of a subsidiary to obtain economic benefits. Subsidiaries are consolidated from the date on which effective control is transferred and cease to be consolidated from the date control ceases. In the absence of special shareholder and management agreements, the result is similar to US GAAP, under which the focus is placed on a controlling financial interest through ownership of a majority voting interest in an entity’s equity.

Provisions

Under IFRS, a provision should only be recognised when a present obligation exists as a result of a past event, it is probable (more likely than not) that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

US GAAP is more prescriptive than IFRS with respect to provisioning. Certain costs that may be accrued under IFRS are not allowed to be accrued under US GAAP.

Property, plant and equipment

For the purposes of estimating carrying value of property, plant and equipment in the opening IFRS balances as of 1 January 2002 an independent appraiser was used to value assets as allowed by IAS No. 29 “Financial Reporting in Hyperinflationary Economies”.

Under IFRS, the residual value of an asset is the net amount an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Under US GAAP, generally historical cost is required to be used as basis of valuation for property, plant and equipment. The residual value of an asset is generally measured as the discounted present value of expected proceeds on future disposal.

Impairment of assets

Under IFRS, when there is an indication of impairment a detailed calculation must be performed. If an asset's carrying amount exceeds the higher of the asset's value-in-use (discounted present value of the asset's expected future cash flows) and net selling price (after deducting selling costs) an impairment loss should be recognised. Subsequent reversal of previously recognised impairment losses is required if certain criteria are met.

Under US GAAP, where impairment is indicated a detailed calculation must be performed. If an asset's carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis then the measurement of the impairment loss is based on fair value. Subsequent reversal of previously recognised impairment losses is prohibited under US GAAP.

Inventory

Under IFRS, a reversal of inventory write-downs is required, if certain criteria are met.

Under US GAAP, a reversal of inventory write-downs is prohibited.

Income taxes

Under IFRS, deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets and liabilities may be recognised on a net basis subject to certain conditions being met.

Under US GAAP, deferred taxes assets and liabilities are measured using enacted tax laws and rates. Deferred tax assets are recognised unless it is more likely than not that they will not be realised. Deferred tax assets and liabilities are not offset. Under US GAAP, there are certain specific exemptions to the basic principle that deferred tax is recognised for all temporary differences.

Borrowing costs

Under IFRS, capitalisation of borrowing costs related to assets that take a substantial time to complete is an available accounting policy choice. Borrowing costs eligible for capitalisation include interest, certain ancillary costs, and exchange differences that are regarded as an adjustment of interest.

Under US GAAP, capitalisation of borrowing costs related to assets that take a substantial time to complete is mandatory. Borrowing costs eligible for capitalisation generally include only interest.

Leases

Under IFRS, a finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. The present value of minimum lease payments is generally determined using the implicit rate in the lease.

Under US GAAP, a lease shall be classified as a capital lease by the lessee if at its inception a lease meets one or more specific criteria. The present value of minimum lease payments is generally determined using the incremental borrowing rate.

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pyaterochka Holding N.V. and Speak Global Ltd.:

We have audited the accompanying combined and consolidated balance sheets of Pyaterochka Holding N.V. and Speak Global Ltd. (the "Group") as at 31 December 2004, 2003 and 2002 and the related combined and consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These combined and consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these combined and consolidated financial statements based on our audits.

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

In our opinion, the accompanying combined and consolidated financial statements present fairly, in all material respects, the combined and consolidated financial position of the Group as at 31 December 2004, 2003 and 2002 and the combined and consolidated results of the Group's operations and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

/s/ ZAO Deloitte & Touche CIS

14 April 2005

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.

COMBINED AND CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER 2004, 2003 AND 2002

	Notes	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	4	198,261	122,247	59,360
Construction-in-progress		38,679	30,839	25,029
Long-term prepayments		3,950	8,925	5,449
		240,890	162,011	89,838
DEFERRED TAX ASSETS	9	2,870	1,453	735
CURRENT ASSETS:				
Inventories	5	39,778	36,439	21,670
Receivables and prepayments	6	117,361	32,406	17,160
Cash and cash equivalents	7	14,748	14,343	5,610
		171,887	83,188	44,440
TOTAL ASSETS		415,647	246,652	135,013
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY:				
Share capital of Pyaterochka Holding N.V.	8	45,693	43,047	368
Share capital of Speak Global Ltd.	8	2	2	2
Share premium		6,213	5,853	5,425
Retained earnings		114,094	56,366	61,612
		166,002	105,268	67,407
DEFERRED TAX LIABILITIES	9	12,319	9,837	7,784
NON-CURRENT LIABILITIES:				
Long-term loans	10	38,609	11,729	2,517
Long-term obligations under finance leases	11	3,546	1,412	—
		42,155	13,141	2,517
CURRENT LIABILITIES:				
Trade accounts payable		123,939	78,346	46,879
Short-term loans	12	32,519	9,927	6,910
Other payables and accrued expenses	13	38,713	30,133	3,516
		195,171	118,406	57,305
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		415,647	246,652	135,013

The notes on pages F-7 to F-22 form an integral part of these combined and consolidated financial statements.

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.
COMBINED AND CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

	Notes	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
REVENUE		1,105,803	759,584	493,240
COST OF SALES		(860,356)	(612,852)	(409,838)
GROSS PROFIT		245,447	146,732	83,402
Selling, general and administrative expenses	14	(148,444)	(101,747)	(51,078)
OPERATING PROFIT		97,003	44,985	32,324
Other expenses, net		(427)	(1,577)	(778)
Finance costs, net	15	(3,736)	(1,170)	(1,452)
Foreign currency exchange gain		1,119	258	—
Net monetary gain		—	—	3,131
PROFIT BEFORE INCOME TAX		93,959	42,496	33,225
INCOME TAX	9	(19,524)	(8,713)	(4,488)
NET PROFIT		74,435	33,783	28,737
Average number of common shares of Pyaterochka Holding N.V. outstanding (Note 3)		38,306,785	38,306,785	38,306,785
Earnings per share, USD per share (Note 3)		1.94	0.88	0.75

The notes on pages F-7 to F-22 form an integral part of these combined and consolidated financial statements.

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.
COMBINED AND CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

	Notes	Share capital of Pyaterochka Holding N.V. '000 USD	Share capital of Speak Global Ltd. '000 USD	Share premium '000 USD	Retained earnings '000 USD	Total shareholders' equity '000 USD
Balance at 1 January 2002		394	—	5,399	32,875	38,668
Share capital of Speak Global Ltd.		—	2	—	—	2
Net profit		—	—	—	28,737	28,737
Cancellation of treasury stock		(26)	—	26	—	—
Balance at 31 December 2002		368	2	5,425	61,612	67,407
Share issue	8	42,650	—	—	(42,650)	—
Dividends paid	8	—	—	—	(2,309)	(2,309)
Net profit		—	—	—	33,783	33,783
Translation adjustment		29	—	428	5,930	6,387
Balance at 31 December 2003		43,047	2	5,853	56,366	105,268
Distribution to shareholders	8	—	—	—	(17,933)	(17,933)
Dividends paid	8	—	—	—	(3,401)	(3,401)
Net profit		—	—	—	74,435	74,435
Translation adjustment		2,646	—	360	4,627	7,633
Balance at 31 December 2004		45,693	2	6,213	114,094	166,002

The notes on pages F-7 to F-22 form an integral part of these combined and consolidated financial statements.

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.
COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
OPERATING ACTIVITIES:			
Profit before income tax	93,959	42,496	33,225
Adjustments for:			
Depreciation of property, plant and equipment	14,423	8,142	3,430
Amortization of long-term prepayments	113	169	5
Loss on disposal of property, plant and equipment	474	272	1,486
Change in provision for doubtful receivables	739	521	(251)
Change in provision for inventory losses	394	(238)	(940)
Monetary gain on non-operating activities and other adjustments	—	—	(1,127)
Interest expense	4,540	1,253	1,475
Operating cash flow before movements in working capital	114,642	52,615	37,303
Increase in receivables and prepayments	(28,316)	(15,796)	(7,237)
(Increase) / Decrease in inventories	(3,733)	(14,542)	5,604
Increase in trade accounts payable	45,593	31,465	11,090
Increase in other payables and accrued expenses	941	25,775	865
Cash provided by operations	129,127	79,517	47,625
Income tax paid	(16,559)	(7,228)	(2,478)
Interest paid	(4,788)	(929)	(1,448)
Net cash provided by operating activities	107,780	71,360	43,699
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(78,708)	(63,276)	(25,293)
Construction in progress	(22,399)	(5,811)	(23,644)
Financing provided to related party (Note 17)	(31,636)	—	—
Proceeds on disposal of property, plant and equipment	1,407	1,185	1,305
Long-term prepayments	(219)	(3,092)	(5,454)
Proceeds from disposal of other assets	—	—	198
Net cash used in investing activities	(131,555)	(70,994)	(52,888)
FINANCING ACTIVITIES:			
Proceeds from bank loans	68,535	33,581	51,882
Repayments of bank loans	(21,533)	(27,357)	(49,279)
Net increase / (decrease) in bank overdrafts	(641)	4,722	1,447
Repayment of obligations under finance leases	(1,592)	(725)	—
Dividends paid	(3,401)	(2,309)	—
Distributions to shareholders (Note 8)	(17,933)	—	—
Net cash from financing activities	23,435	7,912	4,050
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS			
	745	455	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	405	8,733	(5,139)
CASH AND CASH EQUIVALENTS, beginning of year	14,343	5,610	10,749
CASH AND CASH EQUIVALENTS, end of year	14,748	14,343	5,610

The notes on pages F-7 to F-22 form an integral part of these combined and consolidated financial statements.

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.
NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

1. NATURE OF THE BUSINESS

The accompanying combined and consolidated financial statements comprise the combination of the financial statements of Speak Global Ltd. and the consolidated financial statements of Pyaterochka Holding N.V. (previously known as Balt-Adler Optimart B.V.) which include its wholly owned subsidiaries: LLC “Agroaspekt”, LLC “Agrotorg”, LLC “Agroavto”, ZAO “Agrostar”, ZAO “Zeiser”, ZAO “Remtransavto” (collectively – “the Group”).

Pyaterochka Holding N.V. (“the Company”) is a joint stock limited liability company established in August 1975 under the laws of The Netherlands. The principal activity of the Company is to act as a holding and finance company for the group of retail companies that act under the “Pyaterochka” name in St. Petersburg and Moscow and which comprise the 100% subsidiaries detailed above. All the subsidiaries are incorporated in the Russian Federation and were established between 1997 – 2002.

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

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

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

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

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

The Group’s principal business activities are within the Russian Federation. As of 31 December 2004, 2003 and 2002 “Pyaterochka” retail chain operated in St. Petersburg and in Moscow under the brand name “Pyaterochka” the following number of stores:

	2004	2003	2002
St. Petersburg	111	92	80
Moscow	124	97	55

The average numbers of employees of the Group for the years ended 31 December 2004, 2003 and 2002 are 11,559, 11,027 and 7,793, respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation – The combined and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Pyaterochka Holding N.V. maintains its accounting records in Euro (EUR) in accordance with the accounting and reporting regulations of The Netherlands. Speak Global Ltd. maintains its accounting records in Cyprus pounds in accordance with the accounting and reporting

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.

**NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

regulations of Cyprus. All operating entities of the Group maintain their accounting records in Russian Roubles in accordance with the accounting and reporting regulations of the Russian Federation. Statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the combined and consolidated financial statements, which have been prepared using the Group's statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

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

- Valuation of property, plant and equipment in accordance with IAS No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") (described in more detail in Note 3);
- Restatement of non-monetary assets and liabilities and the income statement in accordance with IAS 29 (described in more detail in Note 3).

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

Measurement and Presentation Currency – The measurement currency of the accompanying combined and consolidated financial statements is the Russian Rouble (RUR) as adjusted for hyperinflation where applicable. The Russian Rouble is not a fully convertible currency outside of the territory of the Russian Federation. The translation of Rouble denominated assets and liabilities into US Dollars for the purpose of these financial statements does not indicate that the Group could or will in the future realize or settle in US Dollars the translated values of these assets and liabilities.

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

For 2002 when the measurement currency was the currency of a hyperinflationary economy, the translation to the presentation currency of USD was performed as follows: assets, liabilities and equity items for all balance sheets presented were translated at the closing rate existing at the date of the most recent balance sheet presented; and income and expense items for all periods presented were translated at the closing rate existing at the end of the most recent period presented.

The closing exchange rates for 31 December 2004, 2003 and 2002 were 27.75 RUR / 1 USD, 29.45 RUR / 1 USD and 31.78 RUR / 1 USD, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination – The combined and consolidated financial statements include the consolidated accounts of Pyaterochka Holding N.V. and its subsidiaries and financial statements of Speak Global Ltd., its affiliate under common control and the same management holding the legal right for the "Pyaterochka" brand name. Subsequent to 31 December 2004, Speak Global Ltd was brought under direct ownership of the Group (see Note 20).

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

In combining the financial statements of Speak Global Ltd., each individual line item has been included in the Group's financial statements. All significant intercompany transactions, balances and unrealized gains (losses) on transactions are eliminated on combination.

Hyperinflationary Accounting – The principal operations of the Group are based in the Russian Federation. Before 1 January 2003 the economy of the Russian Federation was considered to be a hyperinflationary economy in terms of IAS No. 29 “Financial Reporting in Hyperinflationary Economies”. Accordingly, the corresponding figures have been restated to account for changes in the general purchasing power of the Russian Rouble and, as a result, are stated in terms of the measurement unit current as of 31 December 2002.

The restatement was calculated using conversion factors derived from the consumer price index reported by Goskomstat (State Statistical Committee of Russia). The conversion factors used in the preparation of the accompanying combined and consolidated financial statements are as follows:

31 December 2002	1.000
31 December 2001	1.151
31 December 2000	1.368
31 December 1999	1.643
31 December 1998	2.246
31 December 1997	4.144

The indices have been applied to the historical costs of transactions and balances as follows:

- Income statement transactions have been restated by applying the change in the index from the approximate date of transaction;
- Gains and losses arising from the restatement of monetary asset or liability positions have been included in the income statement as net gain (loss) on net monetary position; and
- Non-monetary assets and liabilities have been restated by applying the change in the index from the date of the transaction, or, where applicable, from the date of their most recent revaluation.

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

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

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

Revenues are measured at the fair value of the consideration received or receivable.

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

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

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.

NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002

Where historical cost information was not available, management used valuations performed by independent professionally qualified appraisers to arrive at the fair value cost as of the date of initial application of IFRS, which is 1 January 2002. The basis for valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined at their market value. However, as most of the property, plant and equipment are of a specialized nature, they were valued at their depreciated replacement cost. For each item of property, plant and equipment, its new replacement cost was then adjusted for accumulated depreciation, including physical depreciation and functional and economic obsolescence, in arriving at the fair value of the asset.

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

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

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

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

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

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

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

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

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

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

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.

**NOTES TO THE COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Earnings per Share – Earnings per share have been determined using the weighted average number of Pyaterochka Holding N.V. shares outstanding during the years ended 31 December 2004, 2003 and 2002 after giving consideration to the effect of capital reorganization detailed in Note 8. As discussed in Note 20, subsequent to 31 December 2004 the shares of Speak Global Ltd. were contributed by its existing shareholders to Pyaterochka Holding N.V. and the basis of presentation of per share amounts in the future periods is therefore expected to remain the same.

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

Reclassifications – Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

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4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of 31 December 2004, 2003 and 2002 consisted of the following:

	Land and buildings '000 USD	Refrigerating equipment '000 USD	Vehicles '000 USD	Other equipment '000 USD	Total '000 USD
Cost or valuation					
At 1 January 2002	34,496	3,334	683	3,943	42,456
Additions	10,222	6,182	711	7,068	24,183
Disposals	(1,554)	(664)	(42)	(950)	(3,210)
At 31 December 2002	43,164	8,852	1,352	10,061	63,429
Additions	43,518	8,086	754	13,099	65,457
Disposals	(18)	(756)	(99)	(919)	(1,792)
Currency adjustment	5,232	978	130	1,272	7,612
At 31 December 2003	91,896	17,160	2,137	23,513	134,706
Additions	60,628	6,047	1,522	14,319	82,516
Disposals	(526)	(875)	(319)	(1,568)	(3,288)
Currency adjustment	7,763	1,233	171	1,787	10,954
At 31 December 2004	159,761	23,565	3,511	38,051	224,888
Accumulated depreciation					
At 1 January 2002	(3)	(157)	(101)	(794)	(1,055)
Charge for the year	(735)	(569)	(161)	(1,965)	(3,430)
Eliminated on disposals	39	50	19	308	416
At 31 December 2002	(699)	(676)	(243)	(2,451)	(4,069)
Charge for the year	(2,081)	(1,159)	(239)	(4,663)	(8,142)
Eliminated on disposals	2	66	54	263	385
Currency adjustment	(143)	(97)	(25)	(368)	(633)
At 31 December 2003	(2,921)	(1,866)	(453)	(7,219)	(12,459)
Charge for the year	(3,550)	(1,885)	(416)	(8,572)	(14,423)
Eliminated on disposals	6	215	193	1,075	1,489
Currency adjustment	(316)	(174)	(32)	(712)	(1,234)
At 31 December 2004	(6,781)	(3,710)	(708)	(15,428)	(26,627)
Net book value					
At 31 December 2002	42,465	8,176	1,109	7,610	59,360
At 31 December 2003	88,975	15,294	1,684	16,294	122,247
At 31 December 2004	152,980	19,855	2,803	22,623	198,261

For the years ended 31 December 2004, 2003 and 2002, interest capitalized included in additions amounted to USD 427 thousand, USD 155 thousand and USD nil thousand, respectively.

At 31 December 2004, 2003 and 2002, property, plant and equipment with a net book value of USD 38,336 thousand, USD 20,211 thousand and USD 5,131 thousand, respectively, were pledged to secure certain loans granted to the Group (Notes 10 and 12).

At 31 December 2004 and 2003, refrigerating equipment and vehicles include assets held under a number of finance lease agreements (Note 11). At the end of the lease term the Group takes automatic ownership of the assets. The carrying amount of the leased refrigerating equipment at 31 December 2004 and 2003 was USD 5,955 thousand and USD 2,272 thousand, respectively.

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

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If the properties included at valuation had been included at cost, the cost and accumulated depreciation figures at 31 December 2004, 2003 and 2002 would have been:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Land and buildings	126,996	59,141	12,806
Accumulated depreciation on buildings	(4,666)	(1,267)	(178)
Net book value	122,330	57,874	12,628

5. INVENTORIES

Inventories as of 31 December 2004, 2003 and 2002 consisted of the following:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Merchandise	40,209	36,476	21,934
Less: valuation allowance	(431)	(37)	(264)
Total	39,778	36,439	21,670

At 31 December 2004, 2003 and 2002 merchandise with approximate book value of USD 38,674 thousand, USD 5,023 thousand and USD 10,407 thousand, respectively, were pledged to secure loans granted to the Group (Notes 10 and 12).

6. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments as of 31 December 2004, 2003 and 2002 consisted of the following:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
VAT reimbursable	27,365	16,519	8,436
Other receivables and prepayments	11,155	10,129	4,135
Advances paid	7,198	5,981	2,808
Promissory notes receivable	2,270	—	1,057
Other taxes receivable	1,745	404	801
Receivables, promissory note and loan receivable from related parties (Note 17)	68,994	—	—
Provision for doubtful accounts	(1,366)	(627)	(77)
Total	117,361	32,406	17,160

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2004, 2003 and 2002 consisted of the following:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Petty cash	750	477	187
Cash in banks, in RUR	3,383	9,496	2,422
Cash in banks, in USD	5,189	408	618
Cash in transit	5,426	3,962	2,383
Total	14,748	14,343	5,610

Cash in transit represents cash collected by the bank from the Group’s stores as of the end of the working day and not deposited to the bank account as of the date of the combined and consolidated financial statements.

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8. SHARE CAPITAL

At 31 December 2002 the Group's authorized share capital consisted of 4,000 ordinary shares with a par value of 454 Euros of Pyaterochka Holding N.V. (formerly Balt-Adler Optimart B.V.) and 5,000 ordinary shares with a par value of 1 Cyprus Pound of Speak Global Ltd.

In accordance with the provisions of Dutch law the holding company, Pyaterochka Holding N.V., revalued its investments in the Russian subsidiaries at market value for statutory purposes. Effective 29 December 2003 the authorized capital denominated in Euro was increased to 190,000,000 Euros and was split into 190,000,000 shares with a par value of 1 Euro each. The other reserves resulting from the revaluation of investments were used to issue 37,915,437 shares with a par value of 1 Euro each. For purposes of combined and consolidated financial statements prepared in accordance with IFRS the increase of issued and paid-in share capital was recorded as a capitalization of retained earnings as no consideration was received for the issued shares.

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

	Nominal par value	Number of shares issued and fully paid	2004 '000 USD	2003 '000 USD
Pyaterochka Holding N.V. (Balt-Adler Optimart B.V. in 2003)	EUR 1	38,306,785	45,693	43,047
Speak Global Ltd.	Cyprus Pounds 1	1,000	2	2
Total			45,695	43,049

As of 31 December 2002 issued and fully paid share capital consisted of:

	Nominal par value	Number of shares issued and fully paid	2002 '000 USD
Balt-Adler Optimart B.V.	EUR 454	862	368
Speak Global Ltd.	Cyprus Pounds 1	1,000	2
Total			370

During the years ended 31 December 2004, 2003 and 2002 the Group declared and paid dividends of USD 3,401 thousand (USD 0.09 per share), USD 2,309 thousand (USD 0.06 per share) and USD nil, respectively.

During the year ended 31 December 2004, in connection with the spin-off of hyper-markets project (see also Note 20) the Group released its shareholders from the obligations under the loan receivable for USD 17,933 thousand. The effect of this transaction was charged to equity as a distribution to shareholders.

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

9. INCOME TAX

The statutory tax rate effective in the Russian Federation, the location of the majority of the Group's entities, was 24% in the years ended 31 December 2004, 2003 and 2002. In 2002, certain entities of the Group took advantage of simplified taxation scheme allowed by statutory tax legislation for smaller businesses. Income of these entities was taxed at rate different from standard. The foreign entities of the Group are paying income taxes in their jurisdictions.

The taxable profits of Pyaterochka Holding N.V. (formerly Bart-Adler Optimart B.V.), a legal entity incorporated in The Netherlands, are taxed at a rate of 34.5% for the years ended 31 December 2004, 2003 and 2002. The taxable profits of Speak Global Ltd., a legal entity incorporated in Cyprus, are taxed at 4.25% for the years ended 31 December 2004, 2003 and 2002.

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The Group's provision for income tax for the years ended 31 December 2004, 2003 and 2002 is as follows:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Current tax	19,013	7,965	3,679
Deferred tax	511	748	809
Total income tax expense	19,524	8,713	4,488

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

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

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Net liability at January 1	8,384	7,049	6,240
Charged to income for the year	511	748	809
Currency adjustment	554	587	—
Net liability at December 31	9,449	8,384	7,049

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at 31 December 2004, 2003 and 2002 is presented below:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Deferred tax assets			
Accrued expenses	805	120	284
Provision for doubtful receivables	328	150	19
Provision for inventory losses	431	9	63
Difference in depreciable value of property, plant and equipment	1,286	932	—
Other adjustments	20	242	369
Total	2,870	1,453	735
Deferred tax liabilities			
Difference in depreciable value of property, plant and equipment	12,319	9,837	7,784
Total	12,319	9,837	7,784

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

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Profit before income tax	93,959	42,496	33,225
Theoretical income tax at statutory rate of 24%	22,550	10,199	7,974
Adjustments due to:			
Effect of income, taxed at rates different from standard	(8,937)	(2,569)	(4,820)
Tax effect of expenses that are not deductible in determining taxable profit	5,911	1,083	1,334
Income tax expense	19,524	8,713	4,488

The Group does not record deferred tax liabilities in relation to undistributed earnings of its subsidiaries as it intends to permanently reinvest these earnings. Distribution of dividends by the Russian entities would be subject to a 5% Russian withholding tax, subject to the application of and qualifications under the Double Taxation Convention between the Russian Federation and the The Netherlands, which is not recoverable or creditable against Dutch corporate income tax of Pyaterochka Holding N.V.

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10. LONG-TERM LOANS

	Currency	Annual interest rate (actual at 31 December 2004)	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Raiffeisenbank	USD	LIBOR+5.25% (7.65%)	19,575	10,080	—
Sberbank	RUR	11.6%	8,288	—	—
Sberbank	RUR	16.0%-18.0%	8,620	1,517	504
Sberbank	RUR	15.5%-16.5%	1,411	838	—
Sberbank	RUR	11.5%-12.5%	3,961	—	—
Carmel Alliance Limited	USD	5.5%	—	2,056	2,003
Other	Various	Various	134	76	10
			41,989	14,567	2,517
Less current portion of long-term loans (Note 12)			(3,380)	(2,838)	—
Total long-term loans			38,609	11,729	2,517

Raiffeisenbank – In September 2003, the Group entered into two credit agreements with Raiffeisenbank for an aggregate USD 10.0 million. In January 2004, the Group entered into two additional credit agreements with Raiffeisenbank for an aggregate USD 9.9 million. All loans bear interest of LIBOR+5.25% and are redeemable in quarterly installments before August 2008. As of 31 December 2004 and 2003, USD 19.6 million and USD 10.1 million, respectively, were outstanding under these agreements. Property, plant and equipment with a book value of USD 19.4 million and USD 11.9 million were pledged to collateralize the outstanding balances as of 31 December 2004 and 2003, respectively.

Sberbank – During 2002-2004, the Group entered into several credit facilities with Sberbank to finance its capital expenditures. In September 2002, the Group entered into a credit facility of RUR 70.5 million (equivalent of USD 2.5 million) maturing in September 2007. In November 2003, the Group entered into a credit facility of RUR 130.0 million (equivalent of USD 4.7 million) maturing in November 2008. In July 2004, the Group entered into a credit facility of RUR 124.0 million (equivalent of USD 4.5 million) maturing in July 2009. The credit facilities bear interest from 16.0% to 18.0% per annum. As of 31 December 2004, 2003 and 2002, USD 8.6 million, USD 1.5 million and USD 0.5 million were outstanding under these agreements.

In July 2004, the Group entered into loan agreement with Sberbank of RUR 230.0 million (equivalent of USD 8.3 million) to finance its working capital. The loan bears interest of 11.6% per annum and matures in January 2006.

In July 2004, the Group entered into a credit facility with Sberbank of up to RUR 170.0 million (equivalent of USD 6.1 million) to finance its working capital. Interest rate on this credit facility is 11.5%-12.5%. As of 31 December 2004 USD 4.0 million was outstanding under this credit facility. The loan matures in January 2006.

In February 2004, the Group entered into a credit facility with Sberbank of up to RUR 150.0 million (equivalent of USD 5.4 million) to finance its working capital. The credit facility bears interest of 15.5%-16.5% per annum. As of 31 December 2004, USD 0.7 million was outstanding under this credit facility.

In August 2003, the Group entered into a credit facility with Sberbank of up to RUR 90.0 million (equivalent of USD 3.2 million) to finance its working capital. Interest rate on this credit facility was 15.5%-16.5%. As of 31 December 2004 and 2003, USD 0.7 million and USD 0.8 million, respectively, were outstanding under this credit facility. The loan was repaid in February 2005.

As of 31 December 2004, 2003 and 2002, loans from Sberbank were collateralized by pledges of equipment with a book value of USD 9.9 million, USD 6.6 million and USD 3.5 million, respectively. As of 31 December 2004 the loans were also secured by pledge of merchandise with a book value of USD 15.2 million.

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Carmel Alliance Limited – In September 2002, the Group entered into loan agreement with Carmel Alliance Limited of USD 2.0 million. The interest rate on the loan was 5.5% per annum. The loan was fully repaid in 2004.

Loan repayments over the five-year period beginning on 1 January 2005 are as follows:

	‘000 USD
2005	3,380
2006	17,389
2007	7,356
2008	9,921
2009	3,943
Total	41,989

11. LONG-TERM OBLIGATIONS UNDER FINANCE LEASES

During the years ended 31 December 2003 and 2004, the Group entered several lease agreements for refrigerating equipment and vehicles. The agreements expire in 2007-2009 and assume transfer of ownership for the leased assets to the Group at the end of the lease term. The effective borrowing rate on lease agreements as of 31 December 2004 varies from 9.0% to 31.0% per annum.

Lease obligations of the Group as of 31 December 2004, 2003 and 2002 consisted of the following:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Total minimum lease payments	6,807	2,557	—
Less: future finance charges	(2,216)	(1,041)	—
Present value of lease obligations	4,591	1,516	—
Amount due for settlement within 12 months (Note 13)	1,045	104	—
Amount due for settlement in the second to fifth year inclusive	3,546	1,412	—
Total due for settlement	4,591	1,516	—

Rent expense recorded within interest expense was USD 0.9 million, USD 0.2 million and USD nil for the years ended 31 December 2004, 2003 and 2002.

12. SHORT-TERM LOANS

	Currency	Annual interest rate (actual at 31 December 2004)	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Sberbank	RUR	5.0%-11.2%	13,995	920	5,463
Promstroibank	RUR	11.7%	1,081	—	—
LLC Kaiser (Note 17)	RUR	0.1%	8,535	—	—
Sberbank overdraft	RUR	9.0%	2,800	4,986	—
Raiffeisenbank overdraft	RUR	Bank base rate+3.5%	2,728	1,183	1,447
Current portion of long-term loans (Note 10)	Various	Various	3,380	2,838	—
Total short-term loans			32,519	9,927	6,910

Sberbank – In 2002, 2003 and 2004 the Group entered into a number of credit line agreements. The total amount of such credit lines as of 31 December 2004 is limited to RUR 590.0 million (equivalent of USD 21.3 million). The credit lines outstanding as of 31 December 2004 bear interest from 5.0% to 11.2% per annum and mature in 2005. The loans are collateralized by a pledge of merchandise with a book value of USD 23.5 million, USD 5.0 million and USD 10.4 million as of 31 December 2004, 2003 and 2002, respectively. As of 31 December 2004, property, plant and equipment with a book value of USD 9.0 million was also pledged under these agreements.

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Promstroibank – In December 2004, the Group entered into a loan agreement with Promstroibank RUR 30.0 million (equivalent of USD 1.1 million). The loan was unsecured, bearing interest rate of 11.7% per annum and was repaid in January 2005.

LLC Kaiser – In November 2004, the Group entered into loan agreement with LLC Kaiser, a party under common control, for RUR 236.8 million (equivalent of USD 8.5 million). The loan bears interest at 0.1% per annum and is due in the first quarter of 2005.

Sberbank Overdraft – At 31 December 2004 and 2003 the Group had balances of USD 2.8 million and USD 5.0 million, respectively. The short-term overdraft facility is limited to RUR 150.0 million (equivalent of USD 5.4 million), bears interest of 9.0% per annum and matured in January 2005. The overdraft facility is unsecured.

Raiffeisenbank Overdraft – At 31 December 2004, 2003 and 2002 the Group had balances of USD 2.7 million, USD 1.2 million and USD 1.5 million, respectively. The short-term overdraft facility is limited to RUR 100.0 million (equivalent of USD 3.6 million), matures in May 2005 and bears interest at the internal Raiffeisenbank rate set for loans denominated in Rubles plus 3.5%. The overdraft facility is unsecured.

13. OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses as of 31 December 2004, 2003 and 2002 consisted of the following:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Taxes payable	14,888	14,130	2,058
Current portion of finance lease obligations (Note 11)	1,045	104	—
Other payables and accruals	22,780	15,899	1,458
Total	38,713	30,133	3,516

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2004, 2003 and 2002 consisted of the following:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Payroll and related taxes	65,450	42,553	15,070
Rent	21,591	14,233	6,989
Depreciation and amortization	14,536	8,311	3,435
Advertising and promotional expenses	8,976	6,991	1,632
Repair and maintenance	6,162	5,281	4,715
Security	4,241	2,299	1,106
Package and raw materials	3,472	2,962	1,949
Utilities	3,345	1,458	347
Transportation	2,885	1,507	1,233
Insurance	1,995	3,983	—
Taxes, other than income tax	1,287	765	4,142
Other expenses	14,504	11,404	10,460
Total	148,444	101,747	51,078

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

	2004
	'000 USD
Within 12 months	32,498
In the second to fifth year inclusive	56,795
After five years	30,442
Total	119,735

15. FINANCE COSTS, NET

Finance costs for the years ended 31 December 2004, 2003 and 2002 consisted of the following:

	2004	2003	2002
	'000 USD	'000 USD	'000 USD
Interest income	804	83	23
Interest expense	(4,540)	(1,253)	(1,475)
Total	(3,736)	(1,170)	(1,452)

16. OPERATING ENVIRONMENT AND CONTINGENCIES

Operating and Regulatory Environment – Although in recent years there has been a general improvement in the economic conditions in Russia, the Russian Federation continues to display certain characteristics of a transitional economy. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2004, 2003 and 2002 was 11.7%, 12.0% and 15.1%, respectively) and continuing efforts by the government to implement structural reforms. As a result laws and regulations affecting businesses continue to change rapidly.

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

17. TRANSACTIONS WITH RELATED PARTIES

Related party balances as of 31 December 2004, 2003 and 2002 comprised the following:

	2004	2003	2002
	'000 USD	'000 USD	'000 USD
Receivable from LLC Kaiser for sold construction assets	55,843	—	—
Short-term note receivable from Hirsova Trading Limited	7,000	—	—
Receivable from shareholders for withholding taxes	3,540	—	—
Short-term loan receivable from LLC Union-Stroi	2,595	—	—
Advances for construction paid to LLC Macromir	381	618	2,131
Accounts receivable from LLC Media 5	16	—	—
Short-term loan payable to LLC Kaiser	(8,535)	—	—

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

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

LLC Kaiser – In 2004, the Group transferred all of its interests and investments in partially constructed hyper-markets in St. Petersburg (land, buildings and construction in progress) in amount of RUR 650.0 million (equivalent of USD 23.4 million) to LLC Kaiser, a real estate operator for the “Carousel” project in St. Petersburg, and provided financing for RUR 900.0 million (approximately USD 32 million) to LLC Kaiser for developing of “Carousel” project. The assets were transferred at book value, no income or loss on the sale was recognized by the Group and no cash consideration was received. As of 31 December 2004, the Group recorded the total amount of RUR 1,550 million (equivalent of USD 55.8 million) as receivable from related parties for the transferred assets. As further discussed in Note 20, in March 2005 this spin off transaction was completed through the effective release of the related party creditor from its obligation to the Group.

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

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

Hirsova Trading Limited – In 2004, Speak Global also provided loans to Hirsova Trading Limited to finance construction performed by the “Carousel” group and its working capital. As of 31 December 2004, short-term interest-free unsecured note receivable from Hirsova Trading Limited in amount of USD 7.0 million is recorded within receivables from related parties.

LLC Union-Stroi – In 2004, the Group provided financing to the “Carousel” project by issuing loans to LLC Union-Stroi, a real estate operator for the “Carousel” group in Moscow. As of 31 December 2004, short-term interest-free unsecured note receivable from LLC Union-Stroi of USD 2.6 million is recorded within receivables from related parties.

LLC LEK Estate Concern – In 2002, the Group provided a loan to LLC LEK Estate Concern for the total amount of RUR 123.0 million (equivalent of USD 4.4 million). The loan was fully repaid as of 31 December 2002.

LLC LEK Estate Firm – In 2003, the Group purchased a constructed building from LLC LEK Estate Firm for a total consideration of RUR 13.9 million (equivalent of USD 0.5 million).

LLC Macromir – During 2002-2004 LLC Macromir performed capital construction of hyper-markets for the Group. The amount of capital construction services purchased by the Group from Macromir was RUR 79.5 million and RUR 21.2 million (equivalent of USD 2.9 million and USD 0.8 million) in 2003 and 2004, respectively. As of 31 December 2004, 2003 and 2002 the balances of advances paid by the Group to LLC Macromir included in construction in progress amounted to RUR 10.6 million, RUR 17.1 million and RUR 59.1 million (equivalent of USD 0.4 million, USD 0.6 million and USD 2.1 million), respectively.

LLC Media 5 – In 2004, the Group leased advertising space in its St. Petersburg stores to LLC Media 5, a company related by means of common control, for RUR 3.1 million (equivalent of USD 0.1 million). The Group also provided unsecured loans to LLC Media 5 of RUR 4.3 million (equivalent of USD 0.2 million) bearing interest of 0.1% per annum. As of 31 December 2004 accounts receivable from LLC Media 5 are recorded within receivables from related parties.

LLC Media 5M – In 2004, the Group leased advertising space in its Moscow stores to LLC Media 5M, a company related by means of common control, for the total amount of RUR 4.5 million (equivalent of USD 0.2 million).

PYATEROCHKA HOLDING N.V. AND SPEAK GLOBAL LTD.

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As of 31 December 2004, the Group is liable for withholding taxes in amount of USD 3.5 million under the Dutch legislation. The shareholders of the Group have agreed to reimburse the Group with the amount of taxes payable. The receivable from shareholders is recorded within receivables from related parties.

The remuneration of directors of the Group for the years ended 31 December 2004, 2003 and 2002 was USD 1.1 million, USD 9.6 million and USD 0.3 million, respectively.

18. RISK MANAGEMENT POLICIES

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

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

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

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

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

19. CAPITAL COMMITMENTS

In 2003 and 2004 the Group entered into investment agreements for the construction of stores in St. Petersburg and Moscow. Capital commitments as of 31 December 2004, 2003 and 2002 were as follows:

	2004 ‘000 USD	2003 ‘000 USD	2002 ‘000 USD
Commitments for construction of property	10,850	22,153	—

20. SUBSEQUENT EVENTS

Additional Financing – In February 2005, the Board of the Group approved issuance of corporate bonds up to RUR 1,500 million (equivalent of USD 54.1 million). The Group established a wholly-owned subsidiary, LLC Pyaterochka Finance, to organize the issue of the bonds. The issuance is planned in April 2005. The bonds will be guaranteed by Pyaterochka Holding N.V. and LLC “Agrotorg”.

Contribution of Speak Global Ltd. – On 2 March 2005, the existing shareholders of Speak Global Ltd agreed to contribute their shares in that company to Pyaterochka Holding N.V. As a result of this contribution Pyaterochka Holding N.V. might be liable for the Dutch capital contribution tax at 0.55% of fair value of the contribution.

Distribution to Shareholders – In March 2005, the Group disposed of its shareholdings in LLC Foodsale, LLC Pyaterochka Plus and LLC Pyaterochka Shop 502 to a party under common control. The consideration received for the shareholdings was nominal in amount.

As a result of this transaction the Group effectively released the party under common control from the obligation to repay the amounts receivable for the transfer of partially constructed hyper-markets in the amount of RUR 1,550 million (equivalent of USD 55.8 million) and assumed obligations to the party under common control for the equivalent of USD 3.9 million. The transaction was treated as dividend in kind and decreased the shareholders' equity by equivalent of USD 59.7 million. In accordance with the Dutch tax legislation Pyaterochka Holding N.V. is subject to a withholding tax on the transaction expected to be approximately USD 5.0 million which will be reimbursed to the Group by the existing shareholders.

The disposed assets did not contribute to the results of operations of the Group during the years ended 31 December 2004, 2003 and 2002.

Loans to a Related Party – In April 2005, the Group agreed to provide additional short-term unsecured loans to the “Carousel” group for working capital purposes up to USD 30.0 million, bearing interest at 13% per annum and repayable by 31 August 2005.

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