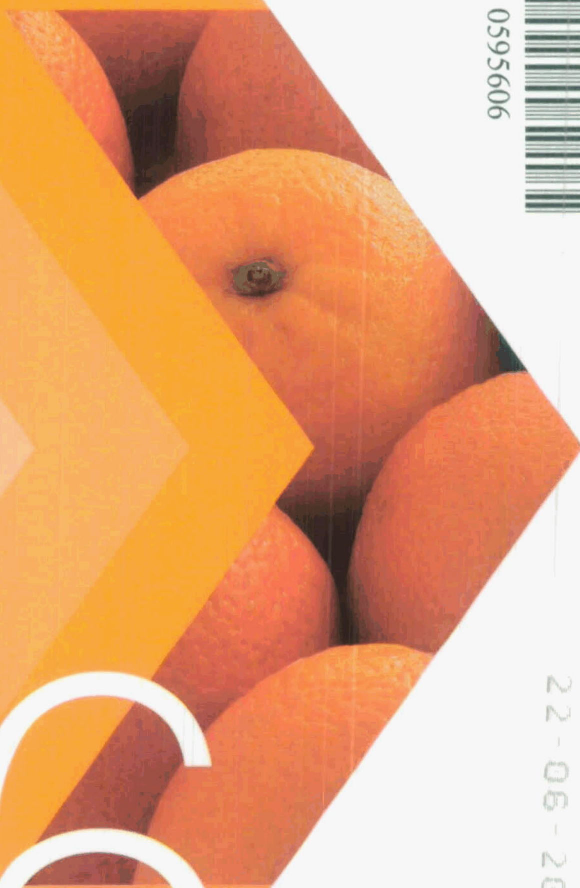
ANNUAL REPORT

X5 RETAIL GROUP



06

X5 Retail Group as of 31 December 2006:

1,234	stores under our banner
13	regional offices across Russia and Ukraine
33,828	average headcount in 2006
446,000 sq.m.	net selling space
More than 445 million	customers in 2006
USD 3,551 million	pro-forma net sales in 2006

X5 Retail Group N.V. is Russia's largest food retailer in terms of sales. As of 31 December 2006, the Group had 451 company-managed "Pyaterochka" soft discount stores located in Moscow (222), St Petersburg (204) and Yekaterinburg (25) areas, and 168 company-managed "Perekrestok" supermarkets across Central Russia and Ukraine, including 100 stores in Moscow.

As of 31 December 2006, franchisees operated 605 Pyaterochka branded stores across Russia, in Ukraine and Kazakhstan. Perekrestok had 10 convenience stores operated by franchisees in the Moscow area.

Pyaterochka and Perekrestok have merged their operations as of 18 May 2006 to create the clear leader in the Russian food retail market.

The Group's audited pro-forma net sales for the FY 2006 were USD 3,551 million, up+50% vs. 2005. Pyaterochka chain provided USD 1,973 million of net sales, the Perekrestok chain contributed USD 1,496 million of net sales, and Merkado chain contributed USD 82 million.

Contents

Introduction by Chairman and Chief Executive Officer

This year, for the first time, we present the Annual Report of X5 Retail Group. X5, formed from the merger of Pyaterochka and Perekrestok, is the clear leader in the Russian retail sector. Our results in 2006 reflect this — we achieved a new record for net sales, of USD 3.551 billion, and recorded a gross profit margin of 27.9%.

Our greatest success in 2006 was to complete the merger transaction while at the same time accelerating our growth rates. Among other achievements, our results showed significantly better performance this year in St Petersburg.

We are already seeing the first benefits of integration. We are developing a new corporate culture, taking the best values from the two former companies and sharing them across the whole Group. We already started capitalizing on tangible synergies of the merger.

We have put in place a very strong management team which we continue to enhance as we grow. We have brought together the two leading retail management teams in Russia, reinforcing the new integrated team with additional senior managers with international experience. We would like to welcome in particular Antonio Melo, Pawel Musial, and Yuri Kobaladze.

X5 has a clear multi-format strategy. We operate three formats — hypermarkets, supermarkets and discounter stores — and each of them has its own defined value proposition and brand. No other retailer in Russia has our breadth of business.

The strong performance of the Russian economy creates a huge opportunity for us as the retailing sector continues its rapid growth. In order to realise this opportunity we need to achieve a step change in our store opening process, from opening several dozens of stores a year to opening hundreds. We have a clear

Hervé Defforey
Chairman of the Supervisory Board

geographic strategy for this; our expansion focused on company managed stores roll-out will concentrate on European Russia, including the Urals region, since this is where 80% of the country's population are located.

Food retailing in Russia is a fragmented sector and our strategy positions us to lead its consolidation. No one looking to enter or compete in this market can do so without first taking X5 into account. Our business model means that we can quickly integrate any future acquisition within our existing formats.

X5 management has now carried out the two largest acquisitions in the sector, the merger of Pyaterochka and Perekrestok and the acquisition of Merkado, a Moscow-based supermarket chain. The acquisition of Merkado closed at the end of 2006 and by March 2007 the Merkado stores were fully integrated into the business.

Hypermarkets are currently the fastest growing format in the Russian market and our approach to the sector gives us maximum flexibility. We are securing locations for up to 70 hypermarket stores and also, hold a call option on the Karusel hypermarket chain. This option can be realised in 2008 at fixed multiples of its 2007 results and would add around another 25 hypermarkets to our portfolio.

Turning now to other markets, we are strongly interested in Ukraine and are looking at ways of building on our existing presence in that country, which we believe has great potential for the future and complements our strategy for Russia.

2006 was a year in which we put in place the structures, systems and management to achieve our next phase of growth. We firmly believe that 2007 will be another year of success and look forward to presenting our next results to you at the appropriate time.

Lev Khasis
Chief Executive Officer

Management Board Overview 2006

COO Review

X5 is setting new standards of achievement in Russian retailing. Integration gives us the opportunity to draw on the best of both businesses and extract practical synergies (such as cost savings and sharing of experience between chains) as well as to build a solid platform for further growth.

In 2006 we began the integration process. From a position where we brought together two different businesses with separate supply chain models and IT systems, we are creating one integrated operation fully able to support the multi-format approach.

As part of the process of developing a fully integrated operation, we intend to implement a pilot project for the new organisational structure in one region; after assessing its effectiveness, we will then roll out one system across the whole Group.

In the first stages of the integration process we already put in place one of the most effective centralised systems of supply-chain management and are building a network of integrated multi-format national and local logistics centres to match the profile of our business.

It has been a priority to renegotiate all supplier contracts on the basis of the enlarged Group with greater purchasing power. This has shown immediate and highly positive results.

Management maintains an intense focus on cost control and efficiency across the Group, reviewing the efficiency and productivity of each store.

Antonio Melo
Chief Operational Officer

As part of optimising our assortment, we are reviewing the number of Stock Keeping Units we hold. Through reducing our SKUs we will increase both our purchasing power and labour productivity.

Our centralised private label development team is currently working on group plans in this area, the expansion of which is key to our strategy.

We have reviewed the existing loyalty programs and have replaced the previous Perekrestok discount program. We have looked at the best examples of loyalty cards worldwide and created a system that gives increased marketing effectiveness through the collection and use of purchase data. We have accomplished this change without losing any customers.

As well as this range of major initiatives in specific areas, we have not only exceeded our store opening target but combined this with strong like-for-like sales increases across both chains, further demonstrating our ability to continue to add highly profitable stores to the network.

Finally I would like to thank our staff for all their efforts in 2006 and their commitment to our future. Human resources are at the heart of what X5 does. Everything that we are seeking to do in logistics, procurement, IT and our other vital management functions depends on the quality of our staff. Together we will continue to build Russia's leading retailer.

CFO Review

Following the merger of Pyaterochka and Perekrestok, the Group has issued its first annual IFRS consolidated financial statements for the financial year 2006. Strong financial results for the year of 2006 show that our integration efforts, which started in May 2006, translated into the first benefits from combined operations. The IFRS pro-forma income statement also includes full year 2006 financial results of Merkado operations.

On a pro-forma basis, net sales increased by 49.6% to USD 3,551 million, which represents a significant acceleration of growth in comparison to 34.4% in FY 2005. This is a record result in an increasingly competitive environment in the Russian retail sector. Through a successful effort by our purchasing team, due to the gradual introduction of private labels, an upgrade of our logistics capacity, improved supplier bonus collections and the positive impact of synergies following the merger, X5 Retail Group managed to raise its pro-forma gross margin from 25.4% to 27.9%, thereby generating pro-forma gross profit growth of an impressive 63.8% reaching USD 989.5 million.

The Group has made significant investments in the business in terms of store openings and an increased marketing budget. Nevertheless, the operating cost base remained tight and pro-forma EBITDA increased by 21% to USD 295 million, which translates into a 55.9% increase if the effect of the Tushino Plaza capital gain in 2005 and ESOP restructuring costs in 2006 and 2005 are excluded. The ESOP restructuring costs had one-off impact on the net earnings and it was a necessary step to eliminate future liability under this program. Taking the costs of ESOP restructuring in 2006 will create significant future savings and enhanced profitability.

Pro-forma net profit reached USD 103 million, up 1.2% on 2005 if the effect of Tushino Plaza capital gain in 2005 is excluded. Net profit margin for the year 2006 equals 2.9%. Should ESOP restructuring costs and Merkado chain full year financial results be excluded from the FY 2006 pro-forma financial results, the Group net profit would amount to USD 168 million with net profit margin of 4.7%.

The Group experienced a strong positive trend in like-for-like sales for the 12 months of 2006, reaching 11% across both chains, but results were varied geographically. Moscow stores showed 14% like-for-like growth composed of basket growth of 8% and an increase in traffic of 6%. In St Petersburg, there has been a more moderate like-for-like growth of 3% on basket growth of 7% and 4% traffic decrease.

Like-for-like sales for the 4th quarter of 2006 showed 13% growth for the Group. Moscow stores showed 16% like-for-like growth composed of basket growth 5% and increase in traffic of 11%. St Petersburg stores showed 8% like-for-like growth composed of basket growth 7% and increase in traffic of 1%. Early indications in 2007 show further improvements in traffic in St Petersburg, which was positive (+2%) in Q1 2007 for the first time over last two years.

During the second half of 2006 the Group's unified purchasing team renegotiated contracts with all suppliers on behalf of the enlarged company, with initial savings of approximately USD 35 million or 1% of sales in 2006, which were partially re-invested into price. In addition, the share of sales of private label products in total retail sales by year end 2006 for Perekrestok and Pyaterochka was 4.3% and 9.0% respectively.

We continue to implement a tight cost control policy. However, both chains have increased their payroll expenses in line with the overall labour market and paid out bonuses for outperformance of operational KPIs by employees resulting in a slight increase of labour costs (excluding ESOP) to 9.6% of pro-forma sales for 2006, however labour costs (excluding ESOP) as percentage of Gross profit remained stable.

Average headcount for 2006 equalled to 33,828 employees.

Our capital expenditures reached USD 579 million in 2006, which enabled the Group to open approximately 126,000 square meters of additional net selling space.

We continued to invest in distribution and logistics in 2006: new modern logistics centres have been opened in Moscow and St Petersburg, which will support the

Group's growth and provide further efficiency gains. Total investments of the Group in distribution and logistics amounted to USD 56 million. Total level of centralization reached 50% for Pyaterochka stores and 25% for Perekrestok stores.

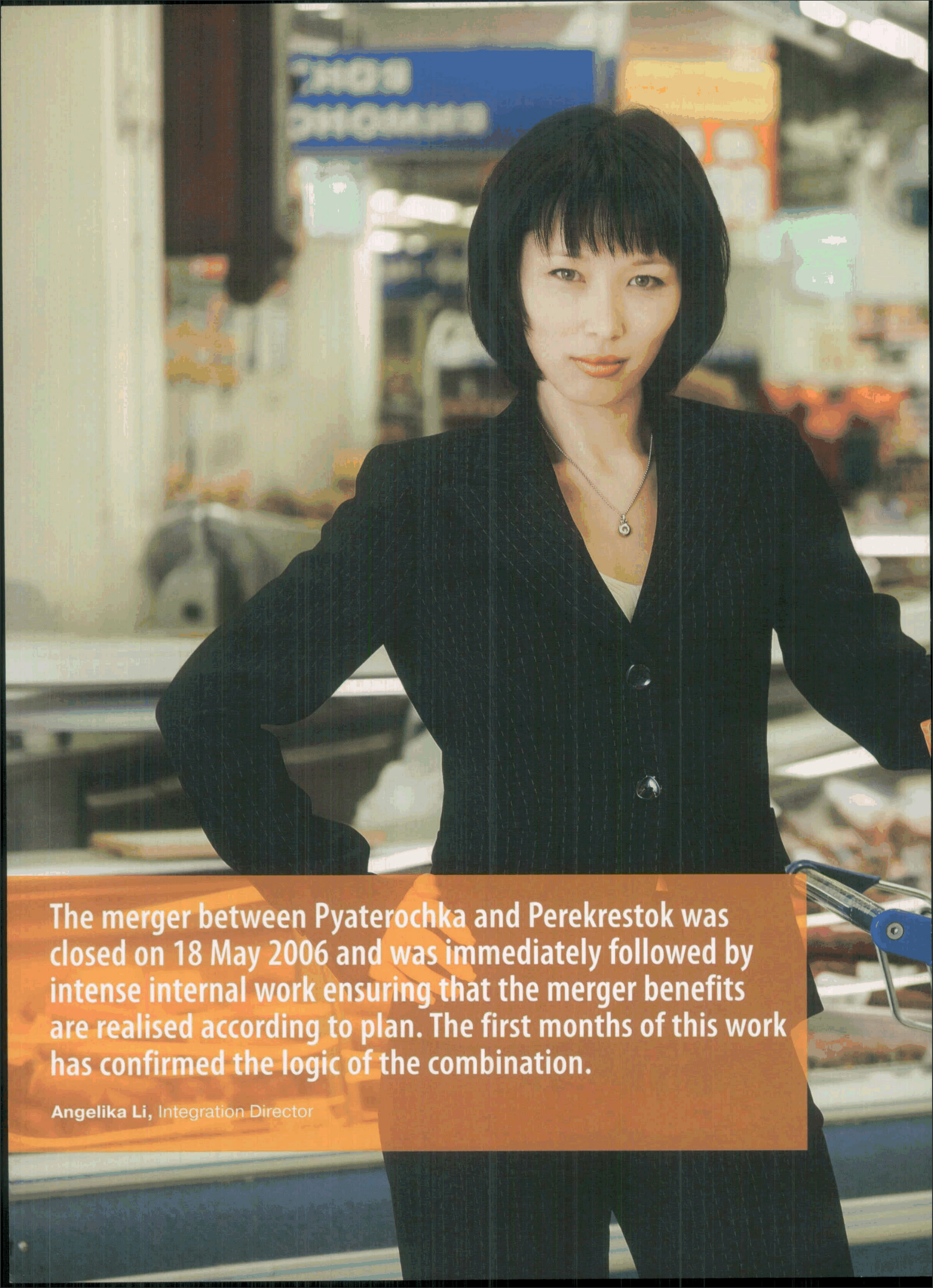
In March 2007, the Group announced its plan to launch a new employee stock option program (ESOP) for its key executives and employees. The total number of share options is planned to be capped at 10,824,008 GDRs. The program will run through to 18 November 2010 and options will be granted in 4 tranches, subject to AGM approval. The exercise price of the first options vesting on 15 June 2007 will be USD 18 per GDR (the share price at the date of the merger on 18 May 2006), the exercise price for second grant will be equal to average market value during 30 days preceding 18 May 2007, and the exercise price of the consequent two option tranches will be equal to the average market value of the shares represented in GDRs during the 30 days prior to the vesting date of each of these options. During 2006, the Group repurchased 902,278 ordinary shares, which are expected to be used for ESOP obligations funding.

As part of the merger, the Group raised USD 800 million from a consortium of banks, divided in two tranches and repayable during three year period from the date of signing of contract. Funds were used for the acquisition of Perekrestok and refinancing of existing debt.

The Group has centralised, integrated and rationalised capital management across the Group. The increased scale of the Group favorably effected Group's positions on capital markets. In the end of 2006 Group's level of Net Debt to pro-forma EBITDA ratio reached 3.4 and is considered as appropriate level of leverage for the dynamically growing company.

2006 was a challenging and eventful year for us and we are looking into 2007 with optimism. We will continue to work toward achieving our key long-term objective of maintaining and reinforcing our position as the leading Russian retailer and to provide our shareholders with a superior return on investment in the industry.

Vitaliy Podolskiy
Chief Financial Officer



The merger between Pyaterochka and Perekrestok was closed on 18 May 2006 and was immediately followed by intense internal work ensuring that the merger benefits are realised according to plan. The first months of this work has confirmed the logic of the combination.

Angelika Li, Integration Director

Successful Integration

X5 RETAIL GROUP

Summary of merger process

Pyaterochka Holding N.V. announced the completion of its merger with Perekrestok Holdings Limited, on 18 May 2006. As a result of this transaction, Alfa Group, one of the largest and most successful financial investors in Russia and a long-standing investor in the Russian food retail sector, together with certain members of Perekrestok management acquired 54.59% of the enlarged Group. Andrei Rogachev and Alexander Girda, the founders of Pyaterochka, retained a combined stake of 21.2% in the enlarged Group.

The merger was effected through an acquisition, by Pyaterochka, of the entire issued share capital of Perekrestok Holdings Limited from a subsidiary of the Alfa Group and Templeton Strategic Emerging Markets Fund LLC. The consideration for the acquisition of Perekrestok was USD 300 million in cash and the issue of 15,813,253 new Pyaterochka shares (1 ordinary share equals to 4 GDRs) as ordinary shares or in the form of GDRs. Based on the average closing price per Pyaterochka GDR of USD 16.83 during the 30 trading days prior to and including 5 April 2006, the last trading day prior to Pyaterochka's announcement that it was in merger discussions with Perekrestok, the transaction valued Perekrestok at USD 1,365 million.

In addition, Alfa Group purchased 2,467,917 Pyaterochka shares from the founding shareholders for USD 200 million in cash, and agreed to purchase a further 12,068,115 Pyaterochka shares from the founding shareholders, subject to certain adjustments, for USD 978 million in cash on completion. Alfa Group's purchase of a total of 14,536,032 Pyaterochka shares from the founding shareholders for a total of USD 1,178 million in cash was equivalent to USD 20.26 per Pyaterochka GDR, and represents a 20.4 per cent premium to the average closing price per Pyaterochka GDR of USD 16.83 during the 30 trading days prior to and including 5 April 2006, the last trading day prior to Pyaterochka's announcement that it was in merger discussions with Perekrestok.

Perekrestok chain

1995
- Perekrestok chain founded by Alfa Group Consortium

1998
- 20 supermarkets opened
- 1st DC acquired

2002
- 1st Perekrestok hypermarket opened
- Regional expansion start

1995 1998 1999 2002

1999
- A.Rogachev and A.Girda founded Pyaterochka chain
- 16 stores opened in St Petersburg

2002
- Pyaterochka franchise operations start
- Private Label development program start
- 100th store opened

Pyaterochka chain

Pyaterochka obtained formal commitment letters and termsheets from a number of leading international financing banks in connection with the financing of the USD 300 million cash element of the consideration payable for the acquisition of Perekrestok, to refinance the existing debt of Perekrestok, and to provide for a capex facility to finance the future development of the enlarged Group.

The merger between Pyaterochka and Perekrestok was immediately followed by intense internal work ensuring that the merger benefits are realised according to plan. The first months of this work has confirmed the logic of the combination. While responsibilities for results remained with the two operating divisions, back office centralisation was an immediate priority. In 2006, the Group centralised key functions in its corporate centre to focus on extracting practical synergies in purchasing, advertising, M&A, cost of financing, and prepared for next steps of integration in the areas of HR, logistics and IT. A new international management team composed of professionals with extensive and successful experience in major Russian companies and leading international retail chains was built up at corporate HQ to lead the integration process and further progress of the Group.

First practical results have been already achieved. During the second half of 2006 the Group's integrated purchasing team re-concluded contracts with all suppliers on behalf of the enlarged Group, with initial savings of approximately USD 35 million, or 1% of net sales in 2006. These savings were partially re-invested into price.

On 27 October 2006, the enlarged Company changed its name to X5 Retail Group N.V. to reflect the changes that took place in the Company following the merger of Pyaterochka and Perekrestok to create a clear leader of the Russian food retail sector.

• Templeton Investment foundation buys 7.7% of Perekrestok stock • SPAR Middle Volga chain acquired	• "365" chain acquired in Yaroslavl' • Gastronomy production started • 90th supermarket opened	• Ukraine market entry via 4 Kiev stores chain acquisition • 120th supermarket opened	Merger of Pyaterochka and Perekrestok
2003	**2004**	**2005**	**2006**
• The largest DC opened in North-West Russia	• Ukraine & Kazakhstan markets entry	• IPO at LSE • 18 St Petersburg and 25 Moscow Kopeyka stores acquisition	X5 RETAIL GROUP

Risk management

Risk is inherent part of our business and risk management is one of the significant parts of X5's activities. Management Board is responsible for designing, implementation and monitoring of effectiveness of internal controls at X5. To ensure all risks are measured, monitored and managed, Management Board has implemented adequate organisational structure, policies and procedures.

Management Board regularly reviews the effectiveness of internal controls to ensure that all significant risks are identified, measured and managed properly.

The Management Board considers that to the best of their knowledge, throughout the year ended 31 December 2006 and to date, X5 has acceptable operational risk and control systems.

Credit risk

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

Foreign exchange and interest rates risk

The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk. The Group uses an interest rate swap with HSBC to hedge the interest rate and a foreign exchange collar with ABN Amro Bank to hedge foreign currency risks. As a result, LIBOR has been fixed at 5 per cent p.a. for the lifetime of the syndicated loan, and the foreign exchange collar at 32.4 and 23.85 RUR/USD. Management did not formally designate the interest rate swap and the foreign exchange collar as hedging instruments and did not applied hedge accounting.

Fair values

The fair value of bonds traded on the MICEX is determined based on market quotations and amounted to USD 237 million at 31 December 2006. The carrying value of these bonds amounted to USD 239 million at 31 December 2006.

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and making assumptions that are based on market conditions existing at each balance sheet date. The carrying amounts of financial assets and liabilities with short-term maturity are assumed to approximate their fair values. At 31 December 2006 the fair value of long-term borrowings was estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. This fair value was not materially different from the carrying amount for the borrowings.

Liquidity risk

At 31 December 2006 the Group has negative working capital of USD 437 million. The whole carrying amount of Perekrestok's bonds of USD 57 million is classified as a current liability but in fact a significant proportion will probably be carried forward to 2008 if the interest rates set in July 2007 are competitive.

Furthermore, at 31 December 2006 the Group had available credit lines with Alfa-Bank of USD 110 million. Management considers that the available credit lines and expected operating cash flows are sufficient to finance the Group's current operations. The Group plans to issue 25 billion RUR callable bonds in 3 tranches during 2007 — early 2008 to refinance the Group's existing debt and fund its store expansion.

Amsterdam, 15 May 2007

L. Khasis	O. Vysotsky
V. Podolskiy	A. Li
A. Gusev	W. G. Rieff
P. B. Musial	

Net Sales

($ in millions)

YOY Growth — 49.6%

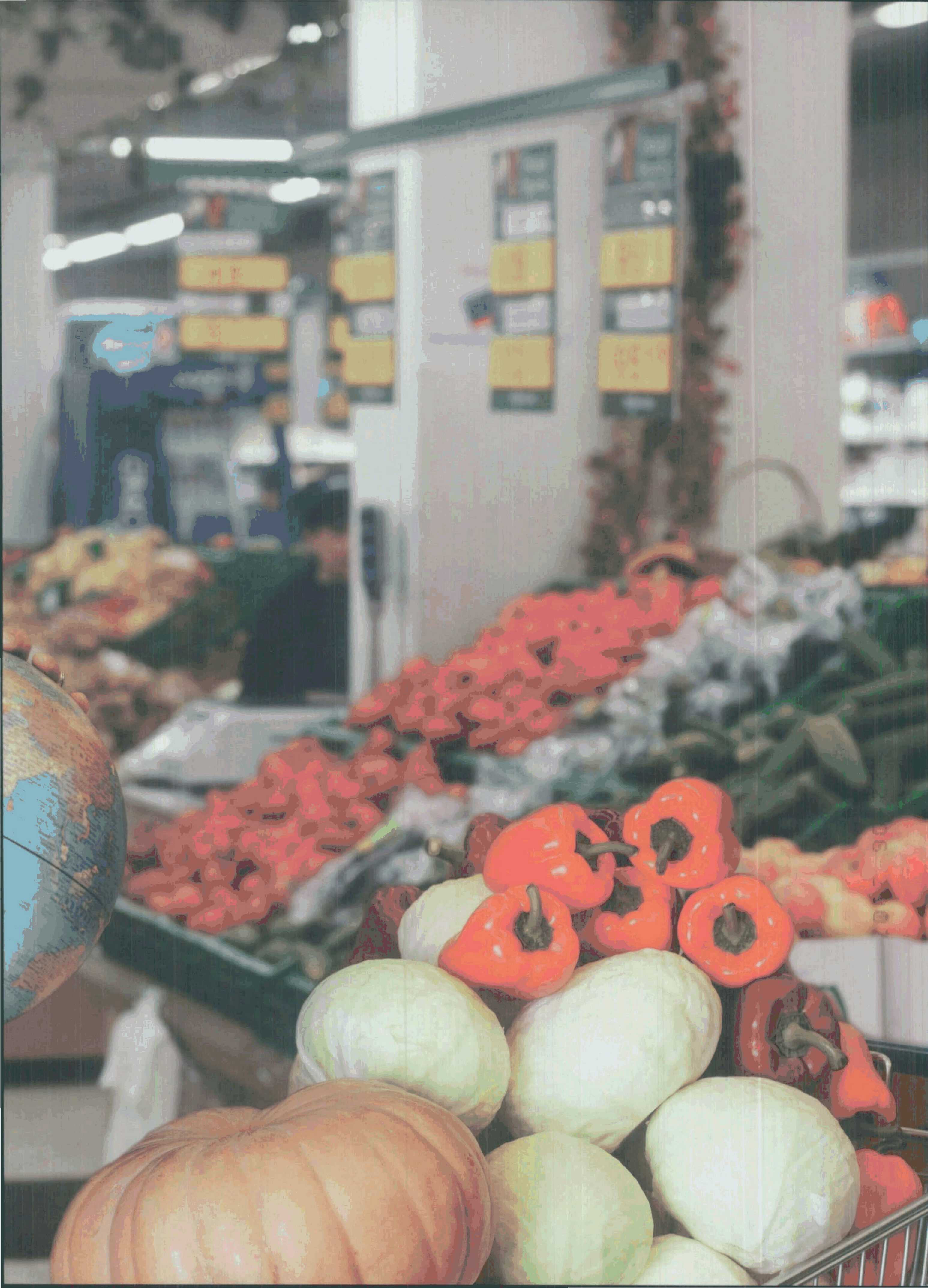
YOY Growth — 34.4%

2004 Pro-Forma | 2005 Pro-Forma | 2006 Pro-Forma

International management team

The professionalism of our international management team composed of managers with extensive and successful work experience both at Russia's largest companies and leading international retailers fully correspond with the Group's ambitious objectives to continue dynamic growth of the enlarged company and play the role of the market consolidator in Russia.

Yuri Kobaladze, Corporate Affairs Director



Supervisory Board

The Supervisory Board of X5 Retail Group N.V. currently consists of eight members:

Hervé Defforey (m), (1950), Chairman.
Hervé, a French citizen, serves as an operating partner and Executive Chairman for Europe in GRP Partners, Los Angeles. Hervé is a member of the Boards of Directors of: Ulta, Chicago, Prepay Technologies, London and Aldata, Helsinki.

Mikhail Fridman (m), (1964), member.
Mikhail, a Russian citizen, serves as Chairman of the Board of Directors of Alfa Bank and TNK-BP and a member of the Board of Directors of VimpelCom. His main non-executive directorships/ancillary positions include Chairman of the Supervisory Board of Alfa Group Consortium.

Andrei Rogachev (m), (1964), member.
Andrei, a Russian citizen, is a member of the Board of Directors of Macromir and LEC Estate. His main non-executive directorships/ancillary positions include member of the Supervisory Board of Formata Holding B.V.

Tatyana Franus (f), (1957), member.
Tatyana, a Russian citizen, whose main non-executive/ancillary positions include member of the Supervisory Board of Formata Holding B.V.

Alexander Kosiyanenko (m), (1964), member.
Alexander, a Russian citizen, serves as a Director of Multiserve Holdings Ltd., Hamilton International Ltd. and Dasana Investments Limited. His main non-executive/ancillary positions include member of the Supervisory Board of Alfa Group Consortium and the Board of Directors of ZAO Sanatory Zelenaya Roscha.

Alexander Savin (m), (1969), member.
Alexander, a Russian citizen, serves as Managing Director of A1. His main non-executive/ancillary positions include member of the Supervisory Board of Alfa Group Consortium and member of the Supervisory Board of Directors of A1.

David Gould (m), (1969), member.
David, an American citizen, serves as Deputy Director for Corporate Development Finance and Control at Alfa Group Consortium. He also serves as member of the Board of Directors of Alfa Finance Holdings SA.

Vladimir Ashurkov (m), (1972), member.
Vladimir, a Russian citizen, serves as Director of Group Portfolio Management and Control in Alfa Group Consortium. His main non-executive/ancillary positions include member of the Supervisory Board of directors of A1 and member of the Board of Directors of Russian Technologies.

Management Board

The Management Board of X5 Retail Group N.V. currently consists of seven members:

Lev Khasis (m), (1966)
Chief Executive Officer, Chairman of the Management Board, X5 Retail Group N.V.

Lev Khasis is the former Chairman of Perekrestok Supervisory Board and a founding member of Investment Company Fosbourne, which invests in various businesses, including retail businesses in Russia. Apart from his activities at Perekrestok, Lev has held a number of senior board and management positions including Chairman of the board of OAO "Trade House GUM", Chairman of the board of OAO "Trade House TsUM" and Chief Executive Officer of JSC Samara Trading House. Lev is a highly respected businessman in Russia and received a number of public awards including 2004 Business man of the Year and 2003 Person of the Year — in the nomination Head of Retail Business.

Lev graduated from the Aircraft Construction Faculty of the Samara Aircraft University, from the Banking Faculty of the Financial Academy of the Government of the Russian Federation and from the Law Faculty of the University of the Interior Ministry of the Russian Federation and holds a PhD in Law, a PhD in Technology and a PhD in Economics.

Vitaliy Podolskiy (m), (1969)
Chief Financial Officer, X5 Retail Group N.V.

Vitaliy Podolskiy is the former Chief Financial Officer of Perekrestok. Prior to joining Perekrestok, Vitaliy worked for Ford Motor Company in the UK from 1999 to 2003 and then in Germany as Finance Controller of Material Planning and Logistics Ford Europe. Vitaliy also worked as a Management Consultant in A.T.Kearney Inc in New York and as a Senior Banking Associate at Bankers Trust International Plc in London.

Born in the Ukraine, Vitaliy studied at the Moscow State University Department of Journalism from 1988 to 1991 and graduated from the University of Chicago Graduate School of Business with MBA in International Business and Finance in 1995.

Oleg Vysotsky (m), (1969)
General Director, Pyaterochka chain

Prior to joining the Company in 1998, Oleg Vysotsky worked in the merchant fleet and later headed the logistics divisions of several leading wholesalers in St Petersburg.

Oleg is a graduate of the Makarov State Naval Academy in St Petersburg.

Angelika Li (f), (1971)
Integration Director, X5 Retail Group N.V.

Angelika Li was appointed Integration Director for X5 Retail Group in October 2006, having previously been CFO for the Pyaterochka chain since April 2001. Prior to this, Angelika held senior finance positions in the banking, audit and publishing industries.

Angelika has a degree of St Petersburg State Technical University in economics.

Pawel Musial (m), (1968)
Chief Commercial Officer, X5 Retail Group N.V.

Pawel Musial was appointed Chief Commercial Officer of X5 Retail Group in October 2006, having previously been General Director and Chief Operating Officer of the Perekrestok chain since June 2004. Prior to joining Perekrestok, Pawel held senior management positions in the food retail industry in Poland, including five years with Tesco in Warsaw, with his last position as Regional Director. He also worked as Trading Director for P.P.H Bizon (retail trade) and as Marketing and Advertising Manager for P.H.U Robert (Auchan network). From 1994 to 1997 Pawel ran his own wholesale poultry, meat and frozen food company, Lokis.

Pawel graduated from SGGW Warsaw with a degree of engineer in Nutrition Technology.

Andrei Gusev (m), (1972)
M&A and Business Development Director, X5 Retail Group N.V.

Andrei Gusev has worked as the director for Portfolio Management and Control at Alfa Group since July 2005 and from November 2001 to July 2005 as director for Investment Planning of Alfa Group. In his current role at Alfa Group Andrei also serves on a number of Supervisory Boards of Alfa Group companies. Prior to joining Alfa Group, Andrei worked in the consulting group at Deloitte and Touche.

Andrei is a graduate of the Moscow State University (Applied Mathematics), and the Wharton School University of Pennsylvania (M.B.A).

Wim Rieff (m), (1959)
Corporate Secretary, X5 Retail Group N.V.

Wim Rieff joined the Group in 2002. He is also employed by Fortis Intertrust (Netherlands) B.V. and has held a number of senior positions during 29 years he has been there.

Yuri Kobaladze
Corporate Affairs Director

Antonio Melo
Chief Operational Officer

Vitaliy Podolskiy
Chief Financial Officer

Angelika Li
Integration Director

Lev Khasis
Chief Executive Officer

Andrei Gusev
M&A and Business
Development Director

Pawel Musial
Chief Commercial Officer

Teimur Shternlib
Chief Information Officer

Report of the Supervisory Board

General

In the two-tier structure under Dutch law, the Supervisory Board is responsible for advising and supervising the Management Board, the general course of affairs in the Company and for setting the direction of the Company's business. The Supervisory Board is responsible for assessing its own performance and is completely independent from the Management Board. It is empowered to recommend to the General Meeting of Shareholders persons to be appointed as members of the Supervisory Board or the Management Board. Major business decisions require the approval of the Supervisory Board. The Supervisory Board also supervises the structure and management of systems of internal controls as well as the financial reporting process. It determines the remuneration of the individual members of the Management Board within the remuneration policy adopted by the General Meeting of Shareholders. While retaining overall responsibility, the Supervisory Board assigns certain tasks to its five permanent committees: The Audit Committee; The Remuneration Committee; The Selection and Appointment Committee; The Related Party Committee and the Strategy Committee.

Meetings of the Supervisory Board in 2006

In 2006 the Supervisory Board held five meetings.

All Supervisory Board meetings are attended by the CEO and CFO of the Company. Occasionally other Management Board members and other key employees attend the Supervisory Board meetings.

The following were among the main topics discussed during 2006 on the Supervisory Board meetings:

- The 2005 Annual Report;
- Purchase of Perekrestok retail chain;
- Audited financial results for the six-month period ended 30 June 2006;
- Temporary remuneration policy of the Management Board;
- Remuneration of the Supervisory Board;
- Concept of the Company's central office;
- Rules governing the principles and best practices of the Supervisory and Management Board;
- 2007 and Medium-term strategy of the Company;
- 2007 budget and key performance parameters;
- Funding Strategy 2007–2010;
- New Company logo and change of the Company name;
- Related party transactions;
- Acquisition of the Merkado retail chain;
- Composition of the Supervisory Board;
- Employee Stock Option Program (ESOP) for key employees.

Supervisory Board Committees

At 31 December 2006 the Company had established five committees: the Audit Committee, the Remuneration Committee, the Selection and Appointment Committee, the Related Party Committee and the Strategy Committee. These committees play an important role in advising the Supervisory Board on a range of matters on which the Supervisory Board carries out its duties.

Audit Committee

The role of the Audit Committee is described in its charter 18, which is available on the Company's website. The Audit Committee consisted of David Gould (Chairman), Hervé Defforey and Tatyana Franus at 31 December 2006.

During 2006, the Audit Committee held two meetings: The first to discuss and approve the concept, structure and functions as well as incremental expenses for the budget of the Company's central office; and the second with the Company's independent auditor, PricewaterhouseCoopers and with the Company's CFO. The purpose of the meeting was to discuss and approve the six-month consolidated financial statements of the Company prepared under IFRS for the period ended 30 June 2006.

It is planned that the Audit Committee will meet not less than three times per year with the following planned agenda:

- April: Discussion and approval of the year-end (31 December) consolidated IFRS financial statements of the Company audited by PricewaterhouseCoopers. Review of Audit Committee Report from the independent auditor without the Company's CFO present (to

review auditor independence, to discuss audit scope and approach, to discuss audit findings, accounting matters and any other issues).
- September: Discussion and approval of the 6-month (30 June) consolidated IFRS financial statements of the Company audited by PricewaterhouseCoopers.
- December: Discussion of the results of the Internal Audit Department work for the year and discussion and approval of the Internal Audit Department plan of work for the ensuing financial year.

Remuneration Committee
The role of the Remuneration Committee is described in its charter which is available on the Company's website. The Remuneration Committee consisted of Alexander Kosiyanenko (Chairman), Hervé Defforey, Andrei Rogachev, Alexander Savin, and Vladimir Ashurkov at 31 December 2006.

The Remuneration Committee had one formal meeting in 2006 in which it proposed to the Supervisory Board the fixed and variable remuneration packages of key members of the Management Board for 2006 — the CEO, CFO and Head of M&A. Where the Company does not yet have in place a remuneration policy approved by the shareholder's meeting, the Company will finalize such policy in the first half year of 2007. This policy will be submitted to the annual shareholders' meeting to be held in June 2007. It is foreseen that the fixed and variable remuneration packages of key members of the Management Board will be in line with the remuneration policy to be approved.

The remainder of the Remuneration Committees' work during 2006 was conducted through the Supervisory Board in which it presented and proposed the main parameters of a shares-based option scheme for participation by Management Board members and other key management.

The Remuneration Committee will meet as and when necessary during 2007 to carry out its duties.

Selection and Appointment Committee
The role of the Selection and Appointment Committee is described in its charter which is available on the Company's website. The Selection and Appointment Committee consisted of Alexander Kosiyanenko (Chairman), Hervé Defforey and Andrei Rogachev, Alexander Savin, and Vladimir Ashurkov at 31 December 2006.

The Selection and Appointment Committee had one formal meeting in the latter part of 2006 in which it proposed the appointment to the Supervisory Board of Hervé Defforey as an independent director. The remainder of the Selection and Appointment Committees' work during 2006 was conducted through the Supervisory Board in which it presented and proposed the new composition of the Management Board and Supervisory Board at the time of the Company's merger with the Perekrestok retail chain in May 2006, proposed the appointment of a new Supervisory Board member after the merger — Vladimir Ashurkov — in the latter part of 2006, and presentation and approval of the profile of the Supervisory Board's scope and composition.

The Selection and Appointment Committee will meet as and when necessary during 2007 to carry out its duties.

Related Party Committee
The role of the Related Party Committee is described in its charter which is available on the Company's website. The Related Party Committee consisted of Andrei Rogachev (Chairman), Hervé Defforey and Alexander Savin at 31 December 2006.

The Related Part Committee met six times during the course of 2006, and considered a number of transactions which were related party and / or gave rise to conflicts of interest with the Company. The transactions are specified in the Corporate Governance Section of this report.

Strategy Committee
The role of the Strategy Committee is described in its charter which is available on the Company's website. The Strategy Committee consisted of Vladimir Ashurkov (Chairman), Alexander Kosiyanenko and Hervé Defforey at 31 December 2006.

The Strategy Committee had no formal meeting in the latter part of 2006 as it was formed only in November 2006. It did however conduct its work informally outside of the Supervisory Board and advised the Supervisory Board on issues in respect of the Company's 2007 budget, target key performance indicators for 2007, and the medium-term strategy of the Company.

The Strategy Committee will meet in 2007 and consider issues such as the review of the general strategy of the Company including overall growth and development strategy; financing strategy; budget and key performance indicators including capital budgets; investment planning including merger with and acquisition of attractive targets.

Changes to the Composition of the Supervisory Board During 2006

Due to the merger with Perekrestok the composition of the Supervisory Board changed significantly in 2006.

On 18 May 2006, Alexander Girda and Igor Vidiaev resigned as members of the Supervisory Board. On the same day five new members were appointed as representatives of Alfa Group Consortium: Mikhail Fridman, David Gould, Nigel Robinson, Alexander Savin and Alexander Kosiyanenko.

On 16 October 2006 Nigel Robinson resigned and was replaced by Vladimir Ashurkov. On the same date Hervé Defforey was appointed as an independent Supervisory Board member.

On 2 November 2006 David Noble resigned as Chairman and member of the Supervisory Board. Hervé Defforey succeeded him as Chairman of the Supervisory Board.

Remuneration of Supervisory Board Members

The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. Currently the annual remuneration is as follows:

Chairman of the Supervisory Board: Euro 24,000 per meeting with a minimum of Euro 120,000 per annum.

Members who chair one or more committees: Euro 75,000 per annum.

Members who do not chair one or more committees: Euro 50,000 per annum.

Financial Statements and Appropriation of the Results for the Year

In accordance with article 25 of the Articles of Association, the Management Board has prepared the financial statements and report for the financial year ended 31 December 2006. Having taken note of the unqualified Auditor's report by PricewaterhouseCoopers, which is included in this report, we have co-signed the financial statements. The financial statements and report of the Management Board are submitted for your consideration and adoption. We recommend the shareholders to adopt the financial statements. It is proposed to transfer the results for the financial year to the other reserves of the Company.

Tabaksblat Committee

As in 2005, X5 Retail Group NV addresses its compliance with the provisions of the Tabaksblat Code in the Corporate Governance Section of this Annual Report.

Amsterdam, 15 May 2007

H. Defforey	D. A. Gould
M. Fridman	A. Kosiyanenko
A. Rogachev	A. Savin
T. Franus	V. Ashurkov

Retirement and Reappointment Schedule of the Supervisory Board

Name	Year of Initial Appointment	End of Term	Ultimate Year of Reappointment	Year of Resignation
T. Franus	2005	2007	2011	2015
A. Rogachev	2005	2008	2012	2016
V. Ashurkov	2006	2008	2012	2016
M. Fridman	2006	2009	2013	2017
A. Savin	2006	2009	2013	2017
A. Kosiyanenko	2006	2010	2014	2018
D. Gould	2006	2010	2014	2018
H. Defforey	2006	2010	2014	2018

Committees on Which Each of the Supervisory Board Members Serve

Name	Audit Committee	Remuneration Committee	Selection & Appointment Committee	Related Party Committee	Strategy Committee
T. Franus	Member				
A. Rogachev		Member	Member	Chairman	
V. Ashurkov		Member	Member		Chairman
M. Fridman					
A. Savin		Member	Member	Member	
A. Kosiyanenko		Chairman	Chairman		Member
D. Gould	Chairman				
H. Defforey	Member	Member	Member	Member	Member

Store opening Progress


Perekrestok Company Managed Stores
Pyaterochka Company Managed Stores
90
235
120
347
168
451
2004
2005
2006

Corporate Governance

General

X5 Retail Group is a Dutch public limited liability company whose global depositary receipts are listed on the London Stock Exchange. As a Dutch listed company we are required to comply with the rules and regulations set out by the Netherlands Authority for the Financial Markets (AFM) and the Dutch Corporate Governance Code of 9 December 2003 either by applying its provisions or explaining why we deviate from any provision. The Company will adhere to the principles as set out in the Dutch Corporate Governance Code to the extent possible and desirable. The best practice provisions that we do not comply with and the reasons therefore are set out hereunder.

The Dutch Corporate Governance Code contains principles and best practices for Dutch companies with listed shares. Our corporate governance policies with respect to the implementation of the Dutch Corporate Governance Code were discussed with our shareholders at the 2006 Annual General Meeting of Shareholders, including those best practice provisions that we did not comply with. The best practice provisions that we did not comply with and the reasons therefore are set out in our 2005 Statutory Annual report and repeated hereafter where appropriate.

Corporate Governance related documents are available on our website, including the Supervisory Board profile, Supervisory Board rules, Management Board rules, the Audit Committee Charter, the Selection and Appointment Committee Charter, Remuneration Committee Charter, Related Party Committee Charter, the Strategy Committee Charter, the Whistleblower policy.

We will discuss any material changes in our corporate governance structure in the Annual General Meeting of Shareholders.

Management Board

In addition to the duties of the Management Board stipulated by law and our Articles of Association, the Management Board has the following responsibilities:

- Achieving the aims, strategy and policy and results of the Company;
- Managing the risks associated with the activities of the Company;
- Ensuring proper financing of the Company; and
- Establishing and maintaining disclosure controls and procedures which ensure that all major financial information is known to the Management Board, so that the timeliness, completeness and accuracy of the external financial reporting are assured.

The Management Board shall be guided by the interests of the Company, taking into consideration the interests of all stakeholders.

The Management Board is responsible for the quality and completeness of financial and other reports, which are publicly disclosed by or on behalf of the Company, including all reports and documents the Company is required to file with regulatory agencies.

Each Management Board member shall immediately report any potential conflict of interest to the Chairman of the Supervisory Board and to the other Management Board members. Management Board members shall in such case provide the Chairman of the Supervisory Board and the other Management Board members with all information relevant to the conflict.

Supervisory Board

The supervision over the policies of our Management Board and the general course of our business and the management actions related thereto is entrusted to the Supervisory Board. In the two tier structure prescribed by Dutch law, the Supervisory Board is a separate body and completely independent from the Management Board.

The Supervisory Board supervises and advises the Management Board in executing its responsibilities, especially regarding:

- The achievement of the Company's objectives;
- Corporate strategy and the risks inherent in the business activities;
- The structure and operation of the internal risk management and control systems;
- The financial reporting process; and
- Compliance with legislation and regulations.

A Supervisory Board member facing a conflict of interest shall inform the Chairman of the Supervisory Board immediately. The Chairman shall, if possible in consultation with the other members of the Supervisory Board, determine the course of action to be taken.

Hervé Defforey is considered to be the only independent member of the Supervisory Board under the Dutch Corporate Governance Code. All other board members are considered to be not independent.

An explanation in respect of the independence of the Supervisory Board Members is provided for under the heading "Independence of Supervisory Board".

The General Meeting of Shareholders

A General Meeting of Shareholders is held each year to discuss the Annual Report of the Management Board about the affairs of the Company and to adopt the Annual Accounts. Extraordinary meetings will be held as often as the Management Board or the Supervisory Board deems desirable.

The powers of the General Meeting of Shareholders are defined in the Articles of Association. The main powers of the shareholders are to appoint, suspend and dismiss members of the Management Board and Supervisory Board to adopt the financial statements, to declare dividends, to discharge the Management Board and Supervisory Board from responsibility for the performance of their respective duties for the previous financial year, to appoint the external auditors, to adopt amendments to the Articles of Association, to issue shares and grant subscriptions for shares, to authorise the Management Board to issue shares and grant subscriptions for shares, to authorise the Management Board to withdraw pre-emptive rights of shareholders upon issuance of shares, and to authorise the Management Board to repurchase or cancel outstanding shares.

Appointment, Suspension and Dismissal of Management and Supervisory Board Members

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

The Supervisory Board members appoint a Chairman from among their members and a vice-Chairman who shall take the place of the Chairman in the latter's absence.

The Supervisory Board is currently composed of eight members. The Supervisory Board members are appointed for a period of up to four years and may be re-elected twice. The Management Board is currently composed of seven members. Members of the Management Board are also elected for a period of four years. The Articles of Association do not limit the term of office for Management Board members.

Remuneration of Management Board Members

The remuneration of the individual members of the Management Board will be decided upon by the Supervisory Board on the recommendation by the Remuneration Committee of the Supervisory Board, based on the Company's Remuneration Policy. The Company has prepared such a policy. This policy will be put forward to the Annual General Meeting of Shareholders for adoption.

The Company adopted a stock option plan in 2005. The Company decided to cancel this option plan and to develop a new option plan that will be presented to the Annual General Meeting of Shareholders to be held in June 2007.

Further information regarding the remuneration of the Management Board is provided for in the Remuneration policy (available on our website) which was approved in 2007 on the Supervisory Board and will be put forward for adoption on the General Meeting of Shareholders in June 2007.

Reporting on Conflicts of Interest

All Supervisory and Management Board members shall immediately report any potential conflict of interest to the Chairman of the Related Party Committee. All Supervisory Board members shall in such case provide the Chairman with all information relevant to the conflict. The following matters were discussed and approved on the Related Party Committee and Supervisory Board during 2006:

- Loans from companies owned or controlled by Supervisory Board members Andrei Rogachev and Alexander Girda to a subsidiary of the Company;
- Payment to CTF Holdings Limited (the ultimate parent company of subsidiary companies holding shares in the Company) and certain employees of CTF Holdings Limited for services relating to support to the Company in areas of financial controlling, legal, tax and other structuring matters, strategic planning, investment planning and provision of offshore and company administration services;
- Payment for conference and meeting facilities on behalf of Lev Khasis, CEO of the Company, to the company that renders such services;
- Payment to Supervisory Board members Alexander Kosiyanenko and Tatyana Franus for consulting services to the Company and its subsidiaries;
- The sale of Moscow-based retail premises from the Company to a company affiliated with Carousel Group, a hypermarket chain of which Supervisory Board members, Andrei Rogachev and Tatyana Franus are shareholders;
- The prolongation of a lease on St Petersburg-based office premises owned by the Company to Carousel Group, a hypermarket chain of which Supervisory Board members, Andrei Rogachev and Tatyana Franus are shareholders;
- The rendering of IT services by the Company to Carousel Group, a hypermarket chain of which Supervisory Board members, Andrei Rogachev and Tatyana Franus are shareholders;
- The rendering of cash collection and other banking services by Alfa Bank, a bank owned by Alfa Group.

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

Internal Risk and Control System

The Management Board is responsible for designing, implementing and operating an adequate functioning Internal Risk Management and Control Framework in the Company. On the basis of this framework the Company should be able to identify and manage the strategic, operational, financial, financial reporting, and compliance risks to which the Company is exposed.

The Internal Risk Management and Control System incorporate certain elements of COSO framework and consequently are being recently enhanced. The COSO framework aims to provide reasonable assurance regarding effectiveness and efficiency of an entity's operations, reliability of financial reporting, prevention of fraud and compliance with laws and regulations. The components which currently facilitate that function are:

The Company has implemented financial policies and procedures, including accounting policies, and non-financial policies and procedures to ensure control by the Management Board over the Company's operations. The quality of the Company's systems of business controls and the findings of internal and external audits are reported to and discussed in the Audit Committee of the Supervisory Board. Internal auditors monitor the quality of the business controls through risk-based business processes audits, inspection of financial reporting controls and compliance audits.

The Company is currently expanding its risk management policies, internal control documentation and assessment of such internal controls to provide further assurance regarding the reliability of financial reporting.

The Company has further enhanced its identification and assessment of its strategic, operational, financial, financial reporting, and compliance risks and is in the process of rolling these processes out to the operating entities and embedding them in its standard business processes.

Additionally, the Company has recently adopted the Whistleblower Policy, which provides for the reporting of alleged irregularities of a financial nature by Company employees or other stakeholders to the Management Board and/or the Supervisory Board without any fear of reprisal against the individual that reports the violation or irregularity. The Whistleblower Policy is available on the website of the Company.

The process for designing, implementing and operating an adequate functioning Internal Risk Management and Control Framework is an on-going process and is expected to take some time for full and effective implementation.

Compliance with the Dutch Corporate Governance Code

Hereunder are stated the following principles and best practices of the Dutch Corporate Governance Code that the Company has not yet complied with:

Internal Risk and Control System

The Company is engaged in the on-going process of improving its current system of internal risk and control system.

Rules concerning principles and best practices of the Supervisory Board and Management Board regarding investment in listed companies

The Company has not implemented this policy and is considering implementation in the future.

Remuneration policy

The Company has prepared a remuneration policy and will submit this to shareholders at the General Meeting of Shareholders to be held in June 2007. This policy will be published on the website of the Company.

Evaluation by the Supervisory Board of its own functioning as well as the functioning of the Management Board as a body and the performance of the individual members of the Management Board

For reason that both the members of the Management and Supervisory Board have changed in May and October 2006 significantly it was decided by the Supervisory Board not to evaluate its own functioning in 2006. Consequently it was decided to postpone the evaluation of the Supervisory Board and Management Board and the performance of their individual members until 2007.

Independence of Supervisory Board

All members of the Supervisory Board except for the Chairman of the Supervisory Board, Hervé Defforey, are not independent. Those members who are not independent are either shareholders or representatives of companies which are owned or controlled by companies which ultimately hold at least 10 % of the shares (or GDRs) in the Company. The Company is, however, of the opinion that the non-independent members of the Supervisory Board have in-depth knowledge of the industry, of the specifics of Russia and other countries where the Company operates which is of particular advantage to the Company and its shareholders. The Company intends to appoint a second independent member of the Supervisory Board in 2007. The Company has decided on the gradual implementation of this best practice provision given the difficulty in identifying candidates with suitable experience.

Management Board compensation

In Dutch Corporate Governance Code provision II.2.11 it is stated that the main elements of the contracts with Management Board members will be made public immediately after it is concluded. Due to the merger with Perekrestok Holdings Limited in the course of 2006, only temporary contracts have been concluded with some of the Management Board members. The main elements of the temporary contracts were not made public. It is foreseen that when the Company enters into contracts with Management Board members that the main elements will be disclosed in the future.

External Auditor Attendance at Supervisory Board meeting

In Dutch Corporate Governance Code provision V.4.1 it is stated that the external auditor shall attend the meeting of the Supervisory Board, at which the report of the external auditor with respect to the audit of the annual accounts is discussed and/or approved. For the 31 December 2005 audit this was not complied with. The Company intends to invite the external auditor to attend the above referenced meeting of the Supervisory Board as well as the meeting of the Audit Committee, which has been held in April and May, respectively.


X5

Lower prices, higher quality

X5 RETAIL GROUP

In the effort to fully satisfy the needs of our customers who are the key focus of all our activity, we tend to provide the consumer with a wide range of high quality products at competitive price.

Pawel Musial, Chief Commercial Officer

Operational Review

Following the merger between Pyaterochka and Perekrestok in May 2006, the Group's size significantly increased and as of 31 December 2006 the total number of company managed stores reached 619, of which 451 were soft discounter stores managed by Pyaterochka and 168 supermarkets managed by Perekrestock.

In 2006 the Group successfully implemented its store opening program gaining additional net selling space of approximately 126,000 square meters and reaching a total net selling space of approximately 466,000 square meters, thus exceeding its 2006 store opening target to add around 120,000 square meters.

Moscow

With the merger between Perekrestok, a predominately Moscow based chain, and Pyaterochka who had rapidly grown its operations in and around the Russian capital over last 6 years, X5 Retail Group's presence in this region has risen considerably.

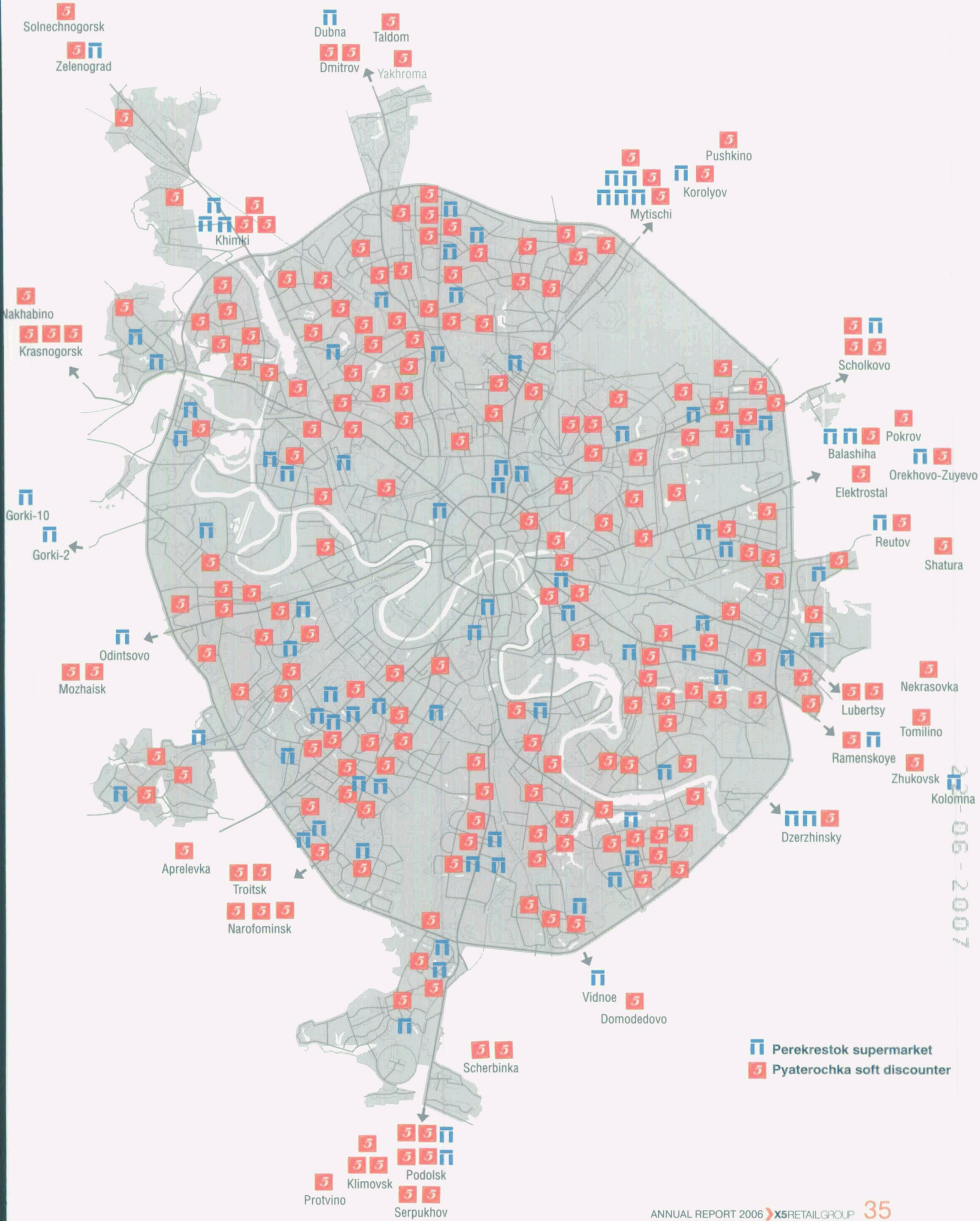
As of 31 December 2006, our portfolio of stores in Moscow and the Moscow region consisted of 322 stores of which 222 were Pyaterochka managed stores and 100 were Pereskestok supermarkets. Of the total 322 stores, 129 were fully owned by the Group and 193 were leased.

Consolidated pro-forma net sales in our Moscow area stores reached USD 1,987 million in 2006.

As of 31 December 2006, our Moscow area stores had a net selling space of 245,926 square meters (134,736 square meters of Pyaterochka stores space and 111,190 square meters of Perekrestok stores space). The average Pyaterochka store and the average Perekrestok store in Moscow had net selling areas of 607 square meters and 1,112 square meters, respectively.

Sales densities of the two operating arms of the Group in the region are quite different, mainly due to the store formats they operate. Perekrestok is a well established, predominantly Moscow-based supermarket chain and enjoys high sales densities. Pyaterochka is a soft discounter with smaller stores and historically had lower sales per square metre than its St Petersburg operations.

As a result of the significant investment made in the business in terms of store opening and store improvement program like-for-like sales in the region demonstrate high level of growth.


Solnechnogorsk
Zelenograd
Dubna
Taldom
Dmitrov
Yakhroma
Pushkino
Korolyov
Mytischi
Khimki
Nakhabino
Krasnogorsk
Scholkovo
Pokrov
Balashiha
Orekhovo-Zuyevo
Elektrostal
Gorki-10
Gorki-2
Reutov
Shatura
Odintsovo
Mozhaisk
Nekrasovka
Lubertsy
Tomilino
Ramenskoye
Zhukovsk
Kolomna
Dzerzhinsky
Aprelevka
Troitsk
Narofominsk
Vidnoe
Domodedovo
Scherbinka
Podolsk
Klimovsk
Protvino
Serpukhov
Perekrestok supermarket
Pyaterochka soft discounter

St Petersburg

Pyaterochka has been strongly represented in St Petersburg since it was first established as a business in 1999.

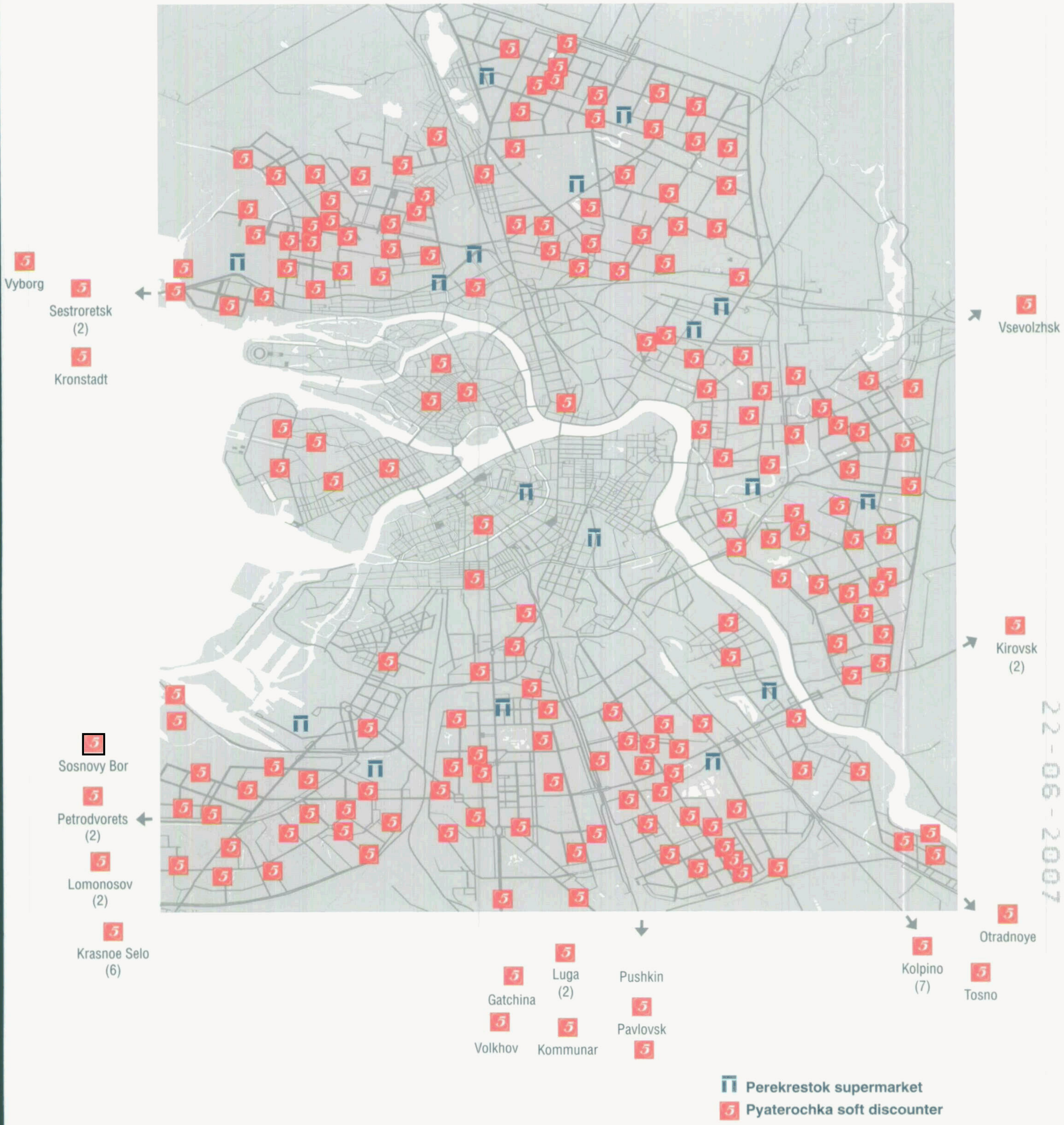
Our portfolio of stores in St Petersburg and the region reached 221 stores as of 31 December 2006, of which 204 were Pyaterochka managed stores and 17 were Pereskestok supermarkets. Of the total 221 stores, 130 were fully owned by the Group and 91 were leased.

Consolidated net sales at St Petersburg stores reached USD 1,128 million in 2006.

As of 31 December 2006, our St Petersburg area stores had a selling space of 133,613 square meters (of which 113,511 square meters was Pyaterochka stores space and 20,102 square meters was Perekrestok stores space). The average Pyaterochka store and the average Perekrestok store in St Petersburg had net selling areas of 556 square meters and 1,182 square meters, respectively.

Pyaterochka's St Petersburg stores have historically had higher sales densities and this trend continued through out 2006. Number of Perekrestok managed stores has approximately doubled to 17 during 2006 due to increasing demand of supermarket format in St Petersburg area.

Over the year as a result of a series of measures, including increased promotions, restyling of stores, and optimisation of assortment, the Group continued to show improvement of Pyaterochka's like-for-like sales performance in St Petersburg. In Q4 2006 traffic was close to 0%, and in Q1 2007 became positive (+2%) for the first time over last two years.


Vyborg
Sestroretsk (2)
Kronstadt
Vsevolzhsk
Kirovsk (2)
Sosnovy Bor
Petrodvorets (2)
Lomonosov (2)
Krasnoe Selo (6)
Gatchina
Luga (2)
Pushkin
Volkhov
Kommunar
Pavlovsk
Kolpino (7)
Otradnoye
Tosno
Perekrestok supermarket
Pyaterochka soft discounter

Regions and Franchise Program

The merger between Pyaterochka and Perekrestok in May 2006 created a strong and proven platform for rapid regional expansion in the large and relatively under-developed markets of the Russian regions (particularly in the European parts of Russia and Urals).

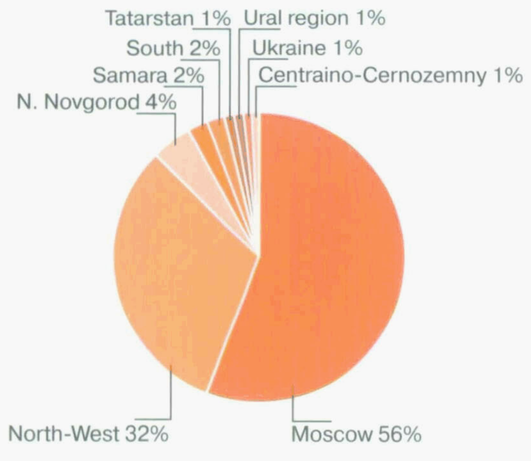
Our portfolio of stores in the regions reached 76 stores as at 31 December 2006, of which 25 were Pyaterochka managed stores and 51 were Pereskestok supermarkets. Of the total 76 stores, 36 were fully owned by the Group and 40 were leased.

Consolidated net sales in the regional stores reached USD 436 million in 2006.

As of 31 December 2006, our regional stores had a total selling space of 86,597 square meters (8,903 square meters of Pyaterochka stores space and 77,694 square meters of Perekrestok stores space). The average Pyaterochka store and the average Perekrestok store in the Regions had net selling areas of 356 square meters and 1,523 square meters respectively.

Franchise agreements are still an important part of our business in the regions. As of 31 December 2006, 605 Pyaterochka branded stores operated under franchise agreements across Russia, Kazakhstan and Ukraine in addition to 10 franchisee operated Perekrestok branded stores in Moscow and the Moscow region. X5 plans to continue using franchisees as an efficient tool to establish and enhance the Group's presence in the regions. We plan to continue or reinforce our relationship with the most successful and efficient partners, leaving those who are either inefficient or damaging the reputation of our brands.

2006: Total Retail Sales by the Regions



Franchised stores

Geography of X5 company managed stores in Russia

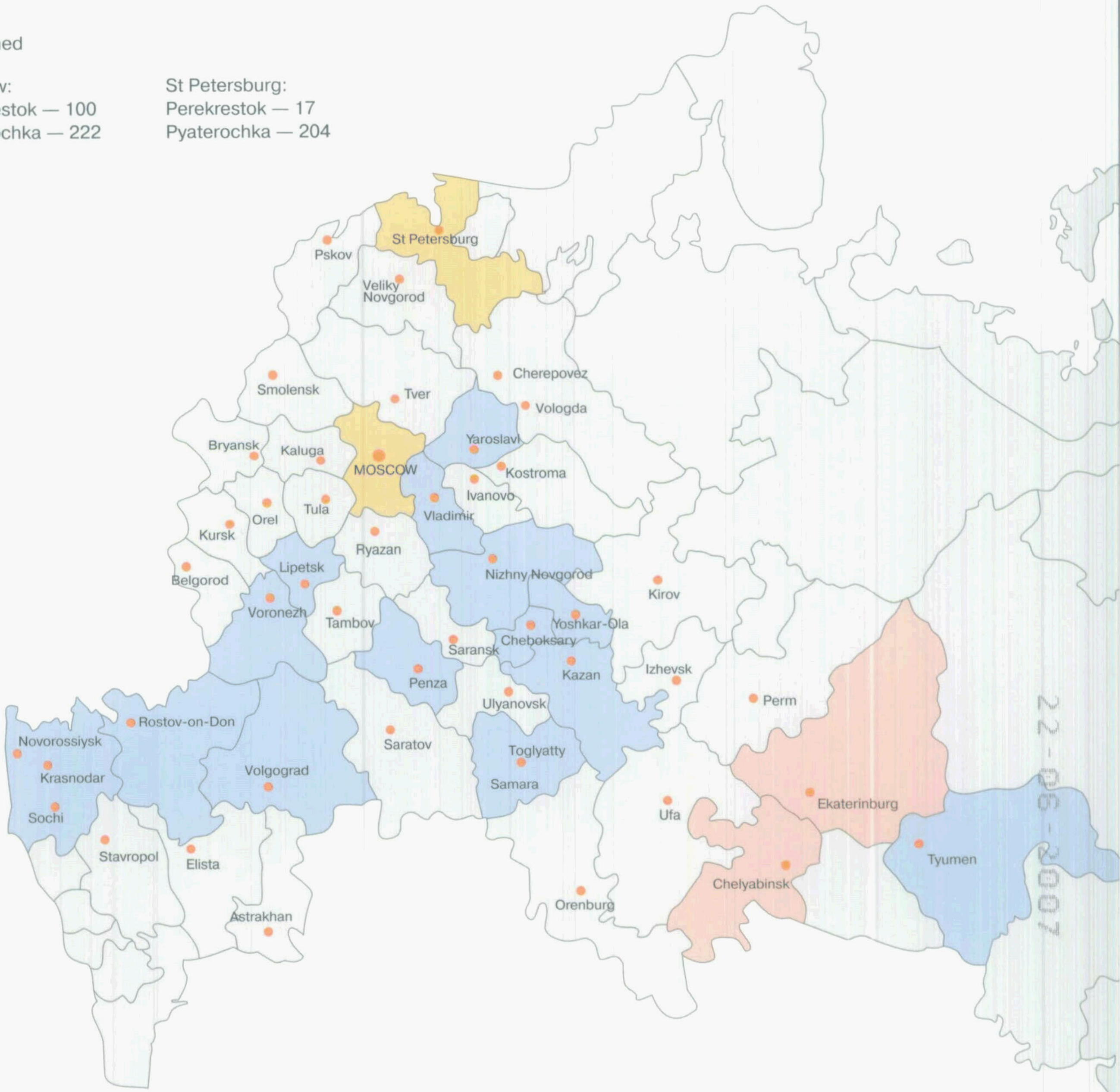
Perekrestok stores — 47 (excl. 4 stores in Ukraine)

Pyaterochka stores — 25

Combined

Moscow:
Perekrestok — 100
Pyaterochka — 222

St Petersburg:
Perekrestok — 17
Pyaterochka — 204



Consolidation Strategy

In the role of the main consolidator of the Russian food retail market, X5 plans to aggressively grow focusing on rolling out company managed stores in the European part of Russia and the Urals, as well as in the Ukrainian market. X5 considers M&A activity as an important tool to support the Group's organic growth plans through acquisition on financially attractive terms of strategically located and growing retail chains. The Group's priority in its multi-format strategy will be hypermarket and discounter formats.

Supplier Bonuses

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

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

During the year of 2006 the Group received USD 246 million (on the Pro-forma basis) of bonuses from suppliers — 125.8% growth in comparison with year 2005 (on Pro-forma basis).

Private Label

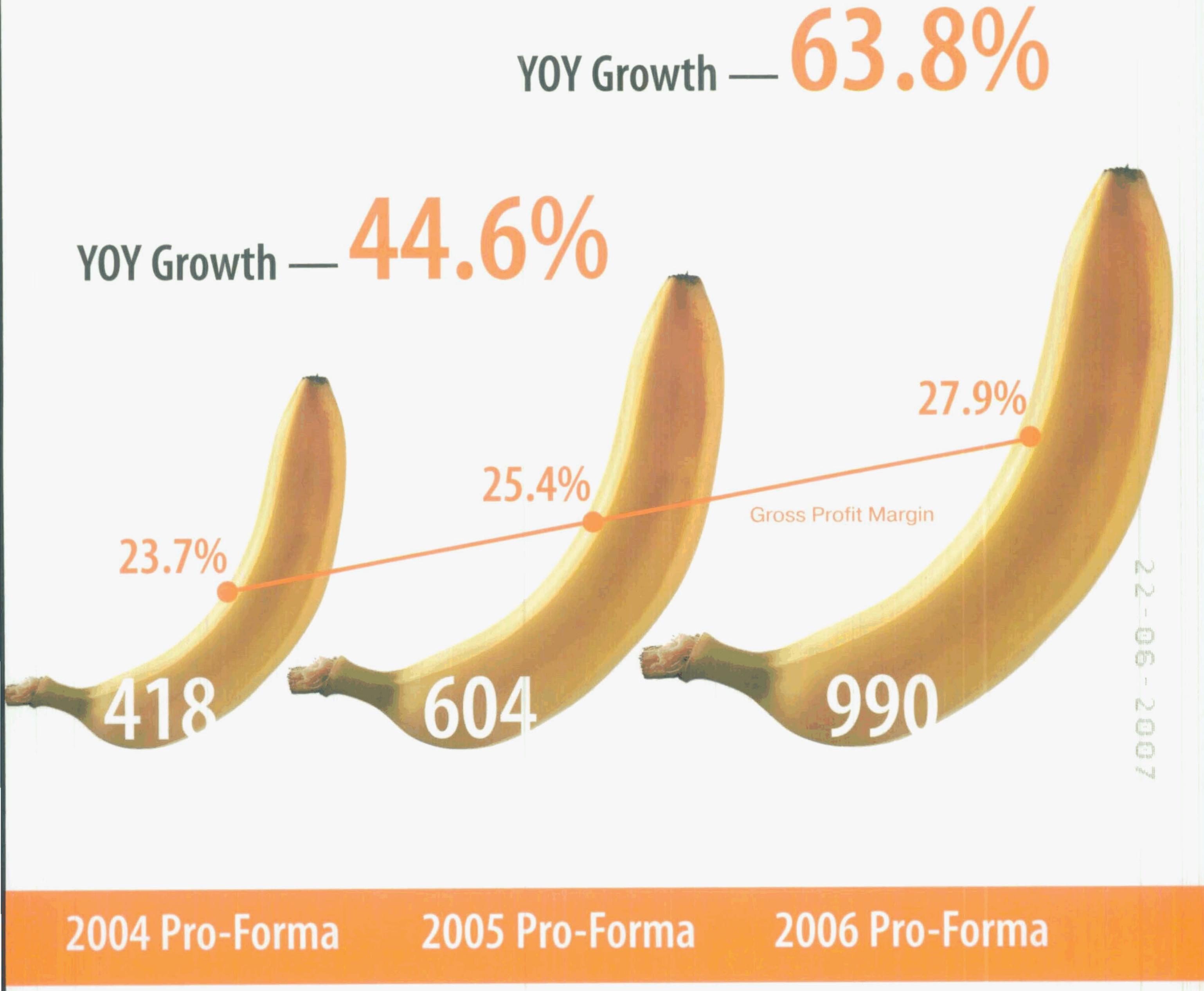
We offer our customers a wide range of private label products under the brands of both Pyaterochka (398 SKUs) and Perekrestock (1,939 SKUs) and other labels developed in-house.

Sales of private label products in 2006, including VAT were USD 71.7 million at Perekrestok and USD 201.1 million at Pyaterochka. The share of sales of private label products in total retail sales in 2006 was 4.3% and 9.0% respectively and the target percentage of private label product sales for Perekrestok is 25% and 40% at Pyaterochka over next five years.

Private labels range tends to be focused on the fast selling, non-perishable and medium-length shelf-life products and beverages. Across all formats there are also a number of non-food items sold under private labels.

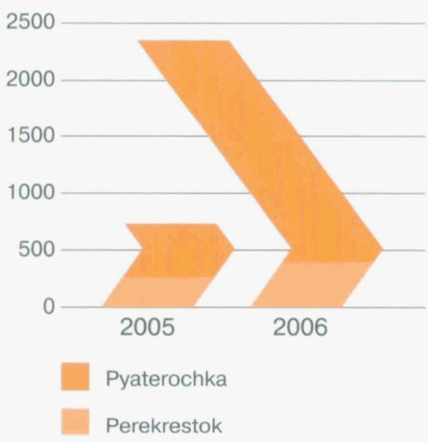
Gross Profit

($ in millions)
(% margin)



Giving the customer good quality products at lower prices is the key for private labels, therefore their pricing is regularly reviewed. Under the "Perekrestok" brand the pricing policy is to match the average of competitors' prices and under the "Real bargain" ("Krasnaya tsena") brand, to offer the lowest among competitor prices. The policy for Pyaterochka stores is that the price for private label products should be less than the price of similar products by 5–40%. As there are no associated promotional costs in the price of these goods, these savings translate into a considerable cost saving and ultimately to higher gross margins compared with similar branded products.

Private label (number of SKUs)



Products and Pricing

Pyaterochka offers its customers a well-selected range of over 6,200 SKUs which cover the majority of customers' basic shopping needs. Food products comprised 90% of Pyaterochka's sales, with the remainder coming from non-food products. The main basket offered by Perekrestok to its customers is over 28,000 SKUs. Non-food items comprise only 12% of Perekrestok sales.

The high percentage of domestically produced items in the range (around 85%) provides Pyaterochka and Perekrestok with an advantage in terms of lower logistics and transportation costs vs. those retailers who offer a higher percentage of imported goods in their range.

In response to customer demand, a greater selection of fresh and perishable products, including a wider selection of fresh fruit and vegetables, meat and fish, and non-food products was introduced across both chains in 2006. At Pyaterochka, fresh and perishable products, comprising dairy products, meat and meat products, vegetables and fruit represent approximately 40% of sales. Perekrestok is positioned as the best on fresh fruits and vegetables, own bakery products, meat and fish products.

Pricing is determined both centrally and separately for the Moscow and St Petersburg areas, and other regions. Direct pricing comparisons are made in each area with regard to the 350–1,500 key value items depending on store formats through a weekly survey of price levels at both direct organised retail competitors and at the open air markets.

Pyaterochka is positioned in the Russian market as a value-focused retailer that is competitive on price. Pyaterochka aims to ensure that 150 key value items are sold at the lowest price available in the relevant retail market, with the remaining products sold at the average price offered by Pyaterochka's direct competitors in the local market. Independent "basket" surveys showed throughout 2006 that Pyaterochka's average basket of goods was USD 7.45, which is equivalent to or less expensive than a similar basket at the company's direct competitors — other discounters and hypermarkets.

Perekrestok's price concept is high/low. Perekrestok's average basket of goods was USD 11.33.

Marketing Initiatives

During the year of 2006 Pyaterochka and Perekrestok operated discount loyalty programs under which discount card holders enjoyed a discount on each purchase he/she made.

At the end of 2006, the discount program at Perekrestok was replaced with the "Perekrestok Club" program based on a cumulative bonus principle. Under this program bonuses are accrued for purchases made at Perekrestok stores. Bonuses accumulated by the customers can be used to pay for further purchases made at Perekrestok stores.

In November 2006, X5 Retail Group signed a 6-year contract with the Russian Football Union. Under the contract X5 gained the titles of "Official Partner of Russian National Football Team" and "General Partner of Russian Football Union". Also X5 has the right to advertise its brands during domicile official games of the national football teams, and to use its titles and the logo of the Russian Football Union on its products.

In August – September 2006, the Perekrestok chain realized its second annual marketing program "Perekrestok shkolam" ("Perekrestok to schools"). Under this program special prizes (sets of personal computers for computer class rooms) were given away to the schools which scored the highest rating based on Perekrestok customers vote.

Distribution and Logistics

In early 2006 the Company completed the construction of a Pyaterochka distribution centre in St Petersburg, with a total area of approximately 19,000 square meters. In June 2006, Phase 1 of the wholly-owned Pyaterochka distribution centre was opened in Podolsk, Moscow region, with an initial capacity of 30,000 square meters. Phase 2 will add additional 20,000 square meters and is due to be completed in 2007.

As at 31 December 2006 the Group had its major distribution centers in the core markets: Moscow and St Petersburg. Total distributional centers area (excluding third parties logistics operators) equaled to 69,000 square meters comprising of 63,000 square meters of owned area and 6,000 square meters of rented area.

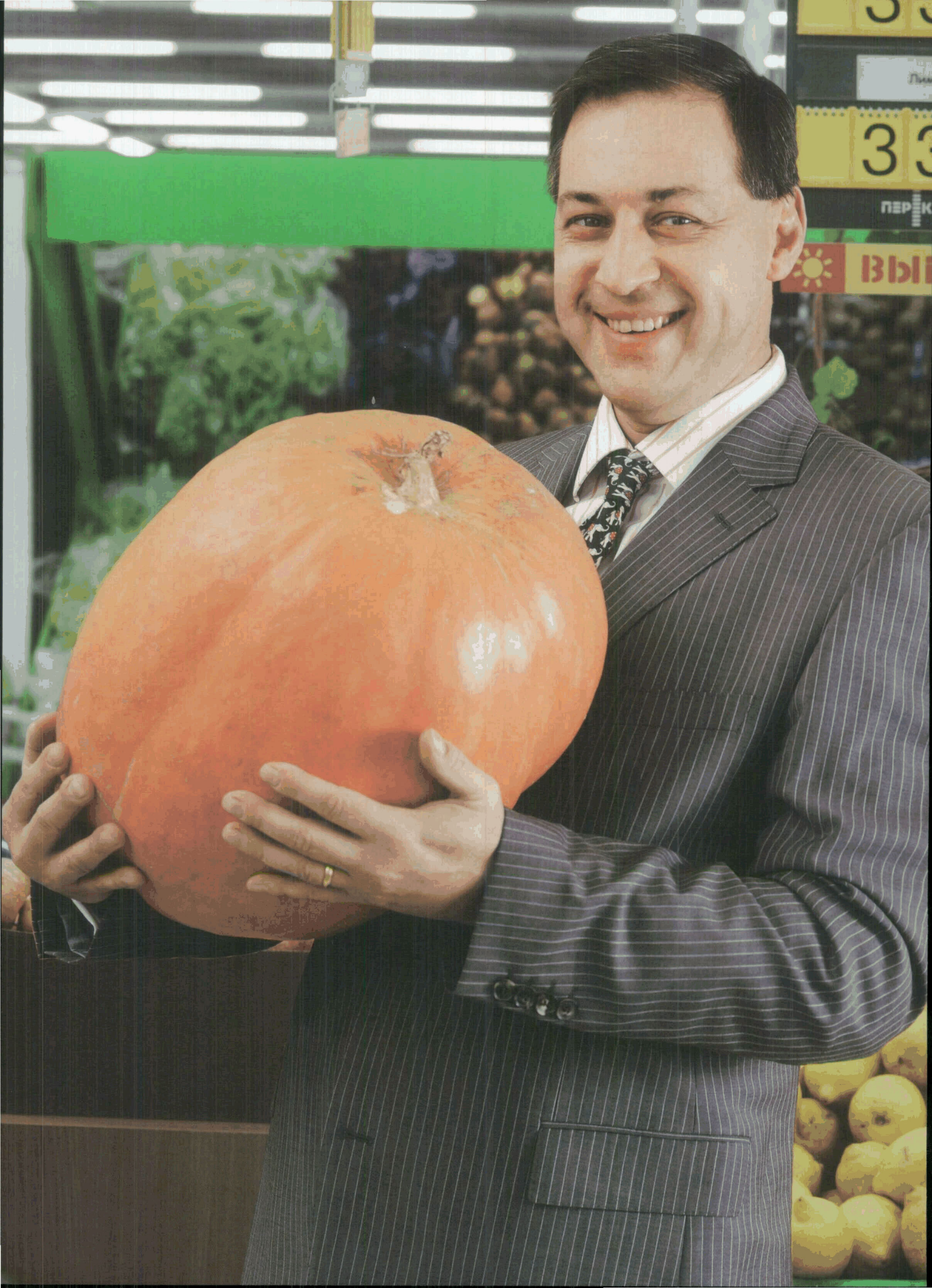
In 2007, X5 plans to launch an ambitious long-term project to build up an integrated logistic system across the European part of Russia, based on a network of multi-format DCs supported by a sophisticated IT platform.

The planned total area of national and regional distribution centres by 2011 is from 600,000 to 700,000 square metres. The current level of supply centralisation is approximately 50% for discounters, and approximately 25% for supermarkets, with the target to increase this level to 85% and 75% respectively over next five years. Regional distribution centres will hold fast moving consumer goods (FMCG) and fresh products, and national distribution centres will hold slow moving consumer goods (SMCG) and strategic goods (import & private label).

X5 Retail Group Distribution Centre locations in European Russia by 2011

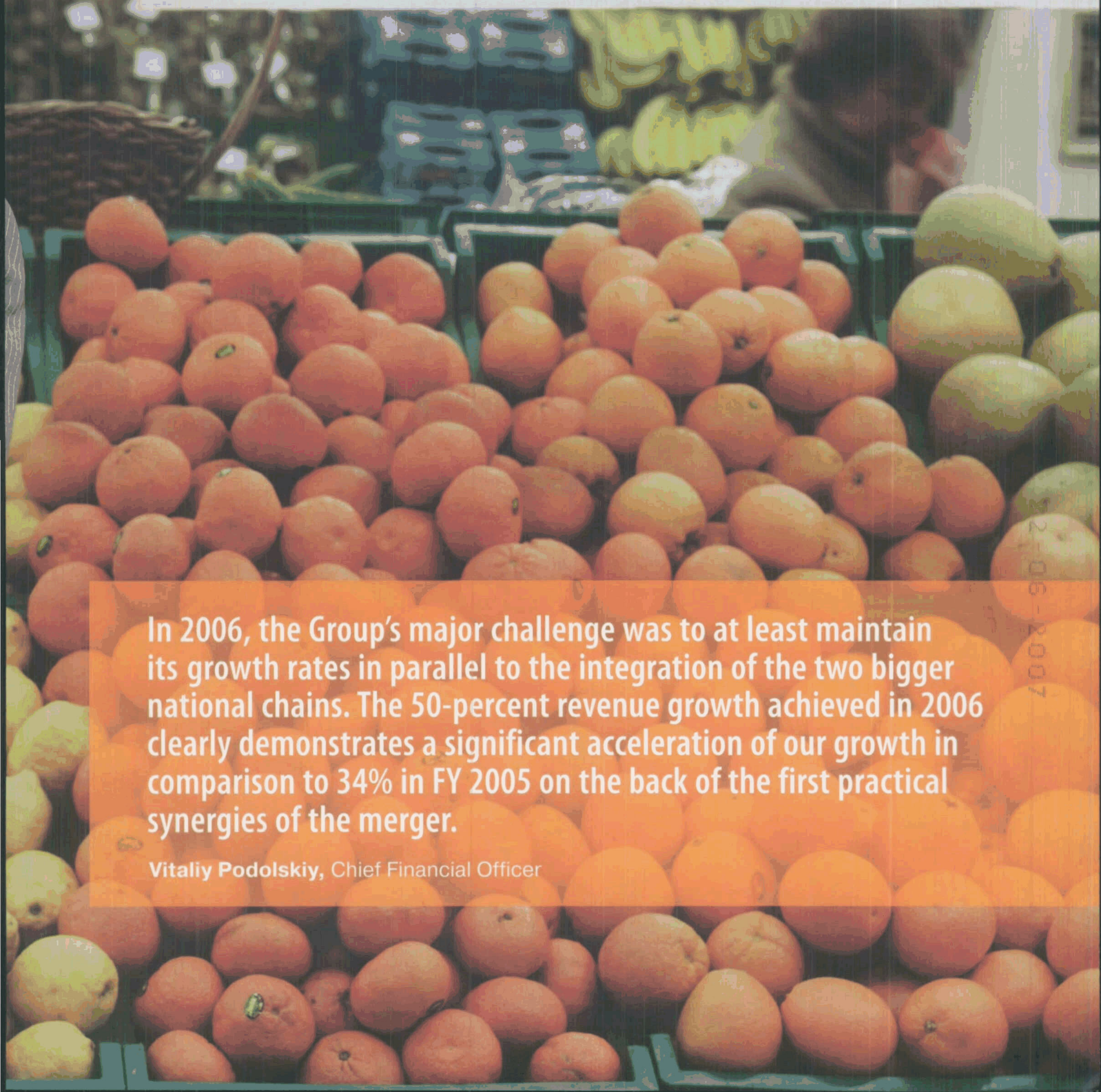
Planned total area of national DC's by 2011
from 600,000–700,000 square meters

● National DC location



Accelerated growth

X5 RETAIL GROUP



In 2006, the Group's major challenge was to at least maintain its growth rates in parallel to the integration of the two bigger national chains. The 50-percent revenue growth achieved in 2006 clearly demonstrates a significant acceleration of our growth in comparison to 34% in FY 2005 on the back of the first practical synergies of the merger.

Vitaliy Podolskiy, Chief Financial Officer

Financial Statements

CONSOLIDATED BALANCE SHEET

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

	Notes	31.12.2006	31.12.2005
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,311,950	324,598
Goodwill	13	2,622,949	24,153
Intangible assets	14	492,259	19,040
Prepaid leases		9,440	4,218
Loan to related party	10	5,250	5,250
Deferred tax assets	29	18,626	–
		4,460,474	377,259
Current assets			
Inventories of goods for resale	15	208,576	68,576
Available-for-sale financial assets		623	–
Loans receivable		10,985	12
Trade and other accounts receivable	16	148,225	24,528
VAT and other taxes recoverable	17	95,595	59,084
Cash	11	167,988	30,067
		631,992	182,267
Total assets		**5,092,466**	**559,526**

CONSOLIDATED BALANCE SHEET (Continued)

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

	Notes	31.12.2006	31.12.2005
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	70,936	30
Share premium		2,901,350	122,152
Cumulative translation reserve		79,459	5,724
(Accumulated deficit)/Retained earnings		(161,708)	54,080
Total equity		**2,890,037**	**181,986**
Non-current liabilities			
Long-term borrowings	19	949,123	144,089
Long-term finance lease payable	20	2,913	–
Deferred tax liabilities	29	177,604	16,674
Long-term deferred revenue		4,117	–
Other non-current liabilities		159	146
		1,133,916	160,909
Current liabilities			
Trade accounts payable		552,060	119,634
Short-term borrowings	19	218,013	52,602
Share-based payments liability	28	69,990	–
Short-term finance lease payables	20	2,271	–
Interest accrued		13,544	702
Payable to related parties	10	414	2,758
Current income tax payable		11,511	5,018
Other liabilities	18	200,710	35,917
		1,068,513	216,631
Total liabilities		**2,202,429**	**377,540**
Total equity and liabilities		**5,092,466**	**559,526**

CONSOLIDATED INCOME STATEMENT

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

	Notes	31.12.2006	31.12.2005
Revenue	23	**2,803,351**	**1,014,785**
Cost of goods sold		(2,007,540)	(749,197)
Gross profit		**795,811**	**265,588**
Operating expenses	24	(669,219)	(242,401)
Gain from disposal of property, plant and equipment		4,240	18,139
Lease/sublease and other income	25	36,879	15,582
Operating profit		**167,711**	**56,908**
Finance costs, net	26	(61,520)	(14,395)
Net foreign exchange gain/(loss)		14,083	(4,420)
Profit before tax		**120,274**	**38,093**
Income tax expense	29	(36,062)	(9,074)
Profit for the year		**84,212**	**29,019**
Attributable to:			
Equity holders of the parent		84,212	29,132
Minority interest		–	(113)
Profit for the year		**84,212**	**29,019**
Basic earnings per share for profit attributable to the equity holders of the Parent (expressed in USD per share)	22	2.13	1.84
Diluted earnings per share for profit attributable to the equity holders of the Parent (expressed in USD per share)	22	2.12	1.84

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	31.12.2006	31.12.2005
Profit before tax		**120,274**	**38,093**
Adjustments for:			
Depreciation and amortisation	24	79,097	24,098
Gain on disposal of property, plant and equipment		(4,241)	(18,139)
Loss on disposal of intangible assets		38	5
Inventory shrinkage	15	28,906	11,476
Finance costs, net	26	61,520	14,395
Impairment of trade and other accounts receivable	24	4,073	1,746
Loss on disposal of subsidiaries	9	110	220
Share-based payments expense	27, 28	27,702	–
Amortisation of deferred expenses		1,535	–
Loss on write-off of other long-term investments		400	–
Net unrealised foreign exchange (gain)/loss		(14,083)	4,420
Net cash from operating activities before changes in working capital		**305,331**	**76,314**
Decrease/(increase) in VAT recoverable		8,475	(30,114)
Increase in trade and other accounts receivable		(70,802)	(17,564)
Increase in inventories		(106,485)	(28,296)
Increase in trade accounts payable		237,414	48,293
Increase in other accounts payable and deferred revenue		53,096	11,957
Translation effect on working capital		(921)	(713)
Net cash generated from operations		**426,108**	**59,877**
Interest paid		(63,843)	(12,393)
Administrative charges paid for loans received		–	(2,886)
Interest received		687	177
Income tax paid		(46,076)	(4,587)
Net cash from operating activities		**316,876**	**40,188**

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

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

	Notes	31.12.2006	31.12.2005
Cash flows used in investing activities			
Purchase of property, plant and equipment	12	(256,642)	(147,903)
Non-current prepaid lease		(6,836)	(3,734)
Acquisition of subsidiaries	8	227,932	(20,138)
Acquisition of other long-term investments		(389)	–
Proceeds from sale of property, plant and equipment		13,125	8,608
Long-term loan to related party originated	10	–	(5,250)
Loans originated		(11,608)	–
Proceeds from sale of investments available for sale		66	1,186
Purchase of intangible assets	14	(6,594)	(246)
Net cash used in investing activities		**(40,946)**	**(167,477)**
Cash flows from financing activities			
Proceeds from short-term loans		204,060	487,923
Repayment of short-term loans		(207,232)	(454,131)
Proceeds from long-term loans		470,208	146,262
Repayment of long-term loans		(225,186)	(75,063)
Distribution to shareholders	8	(300,000)	–
Acquisition of treasury shares	21	(76,534)	–
Principal payments on finance lease obligations		(3,491)	–
Net cash from financing activities		**(138,175)**	**104,991**
Effect of exchange rate changes on cash		166	(253)
Net increase/(decrease) in cash		**137,921**	**(22,551)**
Movements in cash			
Cash at the beginning of the year		30,067	52,618
Net increase/(decrease) in cash		137,921	(22,551)
Cash at the end of the year		**167,988**	**30,067**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

		Attributable to the shareholders of the Company		
	Notes	Number of shares*	Share capital	Share premium
Balance as at 1 January 2005		**38,306,785**	**30**	**122,152**
Translation movement		–	–	–
Profit for the year		–	–	–
Total recognised income for the period		–	–	–
Reduction of Minority interest as a result of the additional acquisition of Rathmine Holdings Limited shares		–	–	–
Balance as at 31 December 2005		**38,306,785**	**30**	**122,152**
Translation movement		–	–	–
Profit for the year		–	–	–
Total recognised income for the period				
Reverse acquisition	8	15,813,253	72,109	2,854,529
Distribution to shareholders	8	–	–	–
Acquisition of treasury shares	21	(902,278)	(1,203)	(75,331)
Balance as at 31 December 2006		**53,217,760**	**70,936**	**2,901,350**

• The number of shares represents number of shares of X5 Retail Group N.V.

	Attributable to the shareholders of the Company			Minority interest	Total
	Cumulative translation reserve	Retained earnings/ (Accumulated deficit)	Total shareholders'equity		
	12,148	**24,948**	**159,278**	**1,862**	**161,140**
	(6,424)	–	(6,424)	–	(6,424)
	–	29,132	29,132	(113)	29,019
	(6,424)	29,132	22,708	(113)	22,595
	–	–	–	(1,749)	(1,749)
	5,724	**54,080**	**181,986**	–	**181,986**
	73,735	–	73,735	–	73,735
	–	84,212	84,212	–	84,212
	73,735	84,212	157,947	–	157,947
	–	–	2,926,638	–	2,926,638
	–	(300,000)	(300,000)	–	(300,000)
	–	–	(76,534)	–	(76,534)
	79,459	**(161,708)**	**2,890,037**	–	**2,890,037**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries, as set out in Note 7 (the "Group"), and are prepared as a continuation of the consolidated financial statements of Perekrestok Holdings Ltd. following the reverse acquisition (Note 2.1).

X5 Retail Group N.V. (before 27 October 2006 known as Pyaterochka Holding N.V.) is a joint stock limited liability company established in August 1975 under the laws of the Netherlands. The principal activity of the Company is to act as a holding company for the group of companies that operate retail grocery stores. The Company's address and tax domicile is Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.

On 18 May 2006, the Company acquired 100% of Perekrestok Holdings Ltd., the parent company for the group of companies that operate stores under the "Perekrestok" brand (Note 8). Although legally X5 Retail Group N.V. is regarded as the parent and Perekrestok Holdings Ltd. is regarded as the subsidiary, Perekrestok Holdings Ltd. is identified as the acquirer under IFRS 3 "Business Combinations" and the acquisition of Perekrestok Holdings Ltd. is accounted for as a reverse acquisition (Note 2.1).

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

	31.12.2006	31.12.2005
Under "Pyaterochka" name		
Moscow	222	159
St Petersburg	204	167
Ekaterinburg	25	21
	451	347
Under "Perekrestok" name		
Moscow	100	73
St Petersburg	17	9
N.Novgorod region	17	14
Samara region	7	6
South Russia region	7	5
Ukraine	4	4
Other	16	9
	168	120
Total stores	**619**	**467**

In addition, as of 31 December 2006 the Group's franchisees operated 605 stores under the "Pyaterochka" brand and 10 stores under the "Perekrestok" brand (31 December 2005: 404 and 8, respectively) in Russia and neighbouring countries, Kazakhstan and Ukraine.

The Group is a member of the Alfa Group Consortium. As of 31 December 2006 the Company's principal shareholders were Luckyworth Limited and Cesaro Holdings Limited owning 32.4% and 22.2% of total issued shares, respectively. The Group owns 902,278 (1.76%) of its shares (Note 21). As of 31 December 2006 the Company's shares are listed on the London Stock Exchange in form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share. As of 31 December 2006 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), a company registered at Suite 2, 4 Irish Place, Gibraltar and the parent entity of the Alfa Group Consortium. CTF is under the common control of Mr Fridman, Mr Khan and Mr Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

The financial statements of the Company include the company financial statements of X5 Retail Group NV and the consolidated financial statements. The company income statement has been abbreviated in accordance with article 402 of part 9 of the Dutch Civil Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2006 have been prepared in accordance wiith, and comply with International Financial Reporting Standards as adopted by the European Union. Both X5 Retail Group N.V. and Perekrestok Holdings Ltd. previously prepared their financial statements under IFRS as issued by the IASB.

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

These consolidated financial statements are issued under name of X5 Retail Group N.V. but represent a continuation of the consolidated financial statements of Perekrestok Holdings Ltd. accordingly:

(a) the assets and liabilities of the legal subsidiary, i.e. Perekrestok Holdings Ltd., are recognised and measured at their pre-combination carrying amounts. The assets and liabilities of X5 Retail Group N.V. are recognised at their fair value at the date of acquisition;
(b) the consolidated retained earnings and other equity balances recognised at the date of acquisition are the retained earnings and other equity balances of Perekrestok Holdings Ltd. immediately before the business combination;
(c) the equity structure reflects the equity structure of X5 Retail Group N.V.; and
(d) the comparative information presented in these consolidated financial statements is that of Perekrestok Holdings Ltd.

2.2. Accounting for the effects of inflation

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

2.3. Consolidated financial statements

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

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

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

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

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

2.4. Minority interest

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

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

2.5. Foreign currency translation and transactions

(a) Functional and presentation currency

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

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

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

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

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

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

(b) Transactions and balances

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

At 31 December 2006, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 26.3311 (31 December 2005: USD 1 = RR 28.7825). Average rate for 12 months 2006 was USD 1 = RR 27.1852 (12 months 2005: USD 1 = RR 28.2864).

At 31 December 2006, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 5.0500 (31 December 2005: USD 1 = UAH 5.0500). Average rate for 12 months 2006 was USD 1 = UAH 5.0500 (12 months 2005: USD 1 = UAH 5.1160).

2.6. Segment reporting

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

2.7. Property, plant and equipment

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

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

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

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

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

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

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

2.8. Intangible assets

(a) Goodwill

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

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

(b) Lease rights

Lease rights represent rights for favourable operating leases. Lease rights acquired in a business combination are recognised initially at fair value and acquired separately are recognised initially at cost. Lease rights are amortised using the straight-line method over the lease term of the respective lease contracts — on average over 10 years.

(c) Brand and private labels

Brand and private labels acquired in a business combination are recognised initially at fair value. Brand and private labels are amortised using the straight-line method over their useful lives:

	Useful lives
Brand	20 years
Private labels	5–8 years

(d) Franchise agreements

Franchise agreements represent rights to receive royalties. Franchise agreements acquired in a business combination are recognised initially at fair value. Franchise agreements are amortised using straight-line method over their useful lives that are, on average, 10 years.

(e) Other intangible assets

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives that are, on average, 10 years.

(f) Impairment of intangible assets

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

2.9. Operating leases

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

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

2.10. Finance lease liabilities

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

2.11. Trade receivables

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

2.12. Inventories of goods for resale

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

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

2.13. Financial assets

The Group classifies its financial assets into the following measurement categories: loans and receivables, held-tomaturity and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS.

Initial recognition of financial instruments

Loans and receivables, held-to-maturity and available-for-sale investments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date. The change in value between the commitment date and settlement date is not recognised for assets carried at cost or amortised cost; is recognised in profit or loss for trading investments; and is recognised in equity for assets classified as available for sale.

Derecognition of financial assets
The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Loans and receivables
Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held-to-maturity
Held-to-maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

Held-to-maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

All other financial assets are included in the available-for-sale category.

Available for sale
Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss.

2.14. Supplier bonuses

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

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

2.15. Cash

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

2.16. Provisions

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

2.17. Value added tax

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

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

2.18. Employee benefits

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

2.19. Share-based payments

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

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

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

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

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

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

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

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

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

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

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

Liabilities for such taxes, interest and penalties are calculated based on management's best estimate of the obligations, in accordance with the rates set out in the respective laws in effect at the balance sheet date (Notes 29 and 31).

2.25. Income and expense recognition

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

(a) Revenue

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

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

(b) Cost of goods sold

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

(c) Interest income and expense

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

(d) Operating expenses

Operating expenses are recognised on an accrual basis as incurred.

2.26. Earnings per share

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

2.27. Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on the higher of fair value less costs to sell or on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 13.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 31).

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

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

Fair value of lease rights. The Group's management determines the fair value of lease rights received. The assessment of the fair value of lease rights is based on the estimate of the market rates of the lease prepared by an independent valuation specialist.

Accounting for property generating incidental lease income. The Group leases out a portion of each store to provide auxiliary services to retail customers which are not provided by the Group (Note 25). The purpose of the leases is to satisfy the full scope of customers' needs rather than earn rental income. The Group accounts for the leased property in accordance with IAS 16 "Property, plant and equipment".

Accounting for rent expense. The Group leases retail outlets under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are classified as minimum lease payments (Note 31).

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

Inventory provisions. The Group provides for estimated inventory shrinkage on the basis of a historical shrinkage as a percentage of sales (Note 15). This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results.

Provision for impairment of trade and other receivables. The Group determines an allowance for doubtful accounts receivable at the end of the reporting period (Note 16). In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectibility of the outstanding accounts receivable balances supplemented by the judgement of management to exclude the impact of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Classification of VAT. Recovery of VAT depends on the registration of certain property, plant and equipment (Note 17).

Fair value of franchise agreements. The Group' management determines the fair value of franchise agreements acquired in business combinations. The assessment of the fair value of franchise agreements is based on the income method using discounted royalty payments during the period of the agreements.

Fair value of brand and private labels. The Group' management determines the fair value of brand and private labels acquired in business combinations. The assessment of the fair value of a brand is based on the income approach using the relief-from-royalty method. The assessment of fair value of private labels is based on either the income method using discounted annual savings for the remaining useful life of the labels or the cost method.

Valuation of Karusel option. As a result of the business combination with Pyaterochka the Group obtained an option to acquire 100% of the shares of Formata Holding BV (a chain of hypermarkets operating under "Karusel" brand in Saint Petersburg) at zero cost. The value of the option depends on the operating results of Formata Holding BV. Due to the uncertainties involved in estimating certain qualitative and quantitative characteristics of the option, and the lack of reliable financial information, the Group has not ascribed any value to the option either on acquisition or at the balance sheet date (Note 8).

4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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

- Amendment to IAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006.
- Amendments to IAS 39, "The fair value option", "Cash flow hedge accounting of forecast intragroup transactions" and "Financial guarantee contracts" (including related amendment to IFRS 4) effective for annual periods beginning on or after 1 January 2006.
- Amendment to IAS 21, "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006.
- Amendments to IFRS 1, "First-time adoption of International Financial Reporting Standards effective for annual periods beginning on or after 1 January 2006.
- IFRS 6, "Exploration for and evaluation of mineral resources", including related subsequent amendment to IFRS 6 and to IFRS 1, effective for annual periods beginning on or after 1 January 2006.
- IFRIC 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006.

- IFRIC 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006.
- IFRIC 6, "Liabilities arising from participating in a specific market — waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005.

5. NEW ACCOUNTING PRONOUNCEMENTS

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

- IFRIC 7, "Applying the Restatement Approach under IAS 29", effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant for the Group;
- IFRIC 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. Management does not expect the interpretation to be relevant for the Group;
- IFRIC 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the Group's operations.
- IFRIC 11, "IFRS 2 — Group and treasury share transactions", effective for annual periods beginning on or after 1 March 2007. Management believes that this interpretation should not have a significant impact on the Group's operations.
- IFRIC 12, "Service concession arrangements", effective for the annual periods beginning on or after 1 January 2008. Management believes that this interpretation should not have a significant impact on the Group's operations.
- IFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. and a complementary Amendment to IAS 1 "Presentation of Financial Statements — Capital Disclosures", effective for annual periods beginning on or after 1 January 2007. The Group is currently evaluating the potential impact of the IFRS 7 and the amendment to IAS 1 on the financial statement presentation.
- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. The Group is currently evaluating the potential impact of the IFRS 8 on the financial statement presentation.
- IFRIC 10, "Interim financial reporting and impairment", effective from 1 November 2006.
- IAS 23 (revised), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009. The Group is currently evaluating the potential impact of the IAS 23 (revised) on the financial statement presentation.

IFRS 8, IFRIC 10, IFRIC 11, IFRIC 12 and IAS 23 (revised) are not yet adopted by the European Union.

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

6. SEGMENT REPORTING

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

7. SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2006 are as follows:

Company	Country	Natureof operations	Ownership (%) 31.12.2006	31.12.2005
Speak Global Ltd.	Cyprus	Trade mark owner and property management	100	–
OOO Agroaspekt	Russia	Retailing	100	–
OOO Agroavto	Russia	Logistic operator	100	–
ZAO Remtransavto	Russia	Real estate	100	–
OOO Pyaterochka 2005	Russia	Real estate	100	–
OOO Set' Roznichnoy Torgovli	Russia	Real estate	100	–
OOO Telprice	Russia	Real estate	100	–
OOO Alliance Service	Russia	Real estate	100	–
OOO Agrotorg	Russia	Retailing	100	–
ZAO Agrostar	Russia	Logistic operator	100	–
ZAO Ceizer	Russia	Real estate	100	–
OOO Beta Estate	Russia	Real estate	100	–
OOO Pyaterochka Finance	Russia	Bonds issuer	100	–
OOO Elicon	Russia	Real estate	100	–
OOO Ural Retail	Russia	Retailing	100	–
OOO Legion	Russia	Real estate	100	–
Perekrestok Holdings Ltd.	Gibraltar	Holding Company	100	100
ZAO TH Perekriostok	Russia	Retailing	100	100
OOO Perekriostok-2000	Russia	Retailing	100	100
OOO Discount-Invest	Russia	Retailing	100	100
OOO Retailtorg NK	Russia	Real estate	100	100
Rathmine Holdings Ltd	Cyprus	Holding Company	100	100
ZAT Center SPAR Ukraine	Ukraine	Retailing	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
OOO Sladkaya Zhizn N.N.	Russia	Retailing	100	100
OOO Metronom AG	Russia	Retailing	100	–
OOO X5 Finance	Russia	Bonds issuer	100	–

8. ACQUISITION OF SUBSIDIARIES

Pyaterochka

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

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

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

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

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

	Acquiree's carrying amount, IFRS	Fair values
Cash and cash equivalents	327,504	327,504
Inventory of goods for resale	58,750	58,750
Trade and other accounts receivable	73,514	73,514
Intangible assets (Note 14)	1,451	438,661
Property, plant and equipment	524,873	638,209
Long-term prepaid lease expenses	4,589	–
Deferred tax asset	1,633	1,633
Other assets	1,165	1,165
Short-term borrowings	(37,295)	(37,295)
Trade and other accounts payable	(257,307)	(252,307)
Provisions for tax contingencies (Note 31)	–	(30,000)
Long-term liability for share-based payments	(42,288)	(42,288)
Long-term borrowings	(544,034)	(557,165)
Non-current lease payable	(3,714)	(3,714)
Deferred tax liability	(9,110)	(136,989)
Net assets acquired	99,731	479,678
Goodwill (Note 13)		2,446,960
Total acquisition cost		2,926,638
Net cash inflow arising from the acquisition		327,504

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

The non-cash component of the cost of acquisition of Pyaterochka was excluded from the consolidated statement of cash flows.

The allocation of the purchase price was completed by 31 December 2006, however, the goodwill is allocated to cash-generating units expected to benefit from the business combination on a provisional basis (Note 13). The provisional fair values assigned to the acquired net assets reported in the consolidated interim financial statements for the six months ended 30 June 2006 were USD 99,731. After the completion of the purchase price allocation the aggregate fair value of the acquired net assets changed by USD 379,947 and amounted to USD 479,678.

As a result of the business combination with Pyaterochka the Group obtained an option to acquire 100% of the shares of Formata Holding BV (a chain of hypermarkets operating under "Karusel" brand in Saint Petersburg) for zero cost. It is exercisable in the period from 1 January 2008 until 1 July 2008 at a price that is calculated based on the acquiree's sales, EBITDA and debt. The Group made reasonable efforts to measure the value of the option at the reporting date using various valuation techniques. However, management of the Group believes that uncertainties arising in measuring qualitative and quantitative characteristics of the option and the lack of reliable information do not allow a reasonable valuation of the option. Therefore, since the value of the option can not be measured reliably the Group has not ascribed any value to the option at acquisition or at the balance sheet.

Pyaterochka goodwill is justified by the following factors i) know how and developed technologies of Pyaterochka in retail business that contributed to the fact that it is one of the most profitable retailers in Russia, ii) qualified management team and staff of Pyaterochka, iii) expected cost and revenue synergies from the business combination, iv) business concentration v) business contacts acquired together with assets of Pyaterochka. Each of the factors contributed to the acquisition cost that results in the recognition of goodwill. However, these intangible assets are not separately recognized in the balance sheet of the Company because they are either not separable or there are no reliable bases for estimating their fair values.

Merkado

In November 2006, the Group acquired 100% of the voting shares of OAO Merkado Group and OOO Metronom AG for USD 101,061. OAO Merkado Group and OOO Metronom AG operate 17 retail grocery stores in Moscow.

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

	Acquiree's carrying amount, Russian GAAP	Fair values
Cash and cash equivalents	1,488	1,489
Inventory of goods for resale	6,823	3,611
Trade and other accounts receivable	16,301	7,261
Intangible assets (Note 14)	40,976	34,974
Property, plant and equipment	29,730	121,855
Other assets	1,239	1
Short-term borrowings	(3,740)	(3,740)
Trade and other accounts payable	(12,245)	(15,166)
Provisions for tax contingencies (Note 31)	–	(10,000)
Long-term borrowings	(99,376)	(99,376)
Deferred tax liability	434	(30,445)
Net assets acquired	(18,370)	10,464
Goodwill (Note 13)		90,597
Total acquisition cost		101,061
Net cash outflow arising from the acquisition		99,572

The allocation of the purchase price was completed, however, the goodwill is allocated to cash-generating units on provisional basis (Note 13).

For identification of fair values the Group engaged ZAO Neo Centre, an independent valuation specialist. In estimating the fair values for the majority of Pyaterochka and Merkado's property, plant and equipment direct references to observable prices in an active market were used (market approach). However, where there was no active market providing reliable information of prices for certain items of property, plant and equipment, then the depreciated replacement cost approach was applied. Fair values of intangible assets were determined using the replacement cost or discounted cash flows methods. These valuation techniques were used since there is no reliable information for market transactions.

Several intangible assets cannot be separately recognized in the balance sheet of the Company because they are either not separable or there are no reliable bases for estimating their fair values. These intangible assets contributed to the recognition of the Merkado goodwill: i) business concentration in Moscow region ii) qualified management team of Merkado iii) expected cost synergies from the business combination.

Under the purchase agreement, the Group has an indemnity for all costs in excess of USD 1,000 that the Group may suffer, including claims in respect of any tax liability or indebtedness arising out of any matter that occurred prior to the date of completion of the acquisition, 17 November 2006, up to a limit of USD 20,000. Furthermore, if the aggregate amount of claims made by the Group to the sellers exceeds USD 20,000 the Group has an option to sell back 100% of the voting shares of the Merkado Group to the former shareholders. The option may be exercised by the Group not later than 31 December 2007. Management estimates that the cost and fair value of the option on the date of acquisition and at the year-end are insignificant.

The acquired business of Pyaterochka contributed revenue of USD 1,291,074 and net profit of USD 63,542 from the date of acquisition. The acquired business of Merkado contributed revenue of USD 16,599 and net loss of USD 3,481 from the date of acquisition.

If the acquisitions had occurred on 1 January 2006, the Group's results for the year ended 31 December 2006 would have been substantially as follows:

	Group, not including Pyaterochka Holding N.V. operations	Pyaterochka Holding N.V. operations	Merkado operations*	Total Group 12 months 2006
Revenue	**1,495,678**	**1,973,138**	**82,652**	**3,551,468**
Cost of goods sold	(1,057,855)	(1,444,298)	(59,815)	(2,561,968)
Gross profit	**437,823**	**528,840**	**22,837**	**989,500**
Operating expenses	(379,986)	(402,849)	(32,059)	(814,894)
Including:				
Staff costs	(163,780)	(224,705)	(16,529)	(405,014)
Third party services	(96,795)	(63,715)	(6,046)	(166,556)
Operating lease expenses	(66,668)	(59,383)	(4,580)	(130,631)
Depreciation and amortisation	(33,261)	(34,072)	(3,596)	(70,929)
Taxes other than income tax	(7,878)	(5,806)	(536)	(14,220)
Other operating expenses	(11,604)	(15,168)	(772)	(27,544)
Gain from disposal of property, plant and equipment	2,885	3,171	20	6,076
Lease/sublease and other income	24,984	14,785	4,017	43,786
Operating profit	**85,706**	**143,947**	**(5,185)**	**224,468**
Finance costs, net	(37,082)	(32,759)	(9,997)	(79,838)
Net foreign exchange gain	5,194	9,532	140	14,866
Profit before tax	**53,818**	**120,720**	**(15,042)**	**159,496**
Income tax expense	(20,755)	(34,708)	(1,236)	(56,699)
Profit for the period	**33,063**	**86,012**	**(16,278)**	**102,797**
Attributable to:				
Equity holders of the parent	33,063	86,012	(16,278)	102,797
Minority interest	–	–	–	–
Profit for the period	**33,063**	**86,012**	**(16,278)**	**102,797**

• unaudited information derived from previous management accounts.

9. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2006 the Group disposed of its subsidiaries ZAO STD-Holding and ZAO Credo-Estate:

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

10. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2006 are provided below.

Alfa Group

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

	Relationship	2006	2005
CTF Holdings Ltd.	Ultimate parent company		
Management services received		890	816
OAO "Alfa-Bank"	Under common control		
Interest expense on loans received		598	1,604
Bank charges		256	41
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services rendered by VimpelCom to the Group		487	159
Commission for mobile phone payments processing rendered by the Group to VimpelCom		489	933
Golden Telecom	Under significant influence of CTF Holdings Ltd.		
Communication services received		1,645	435

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

	31.12.2006	31.12.2005
Cash and cash equivalents		
OAO "Alfa-Bank"	20,173	5,442
Short-term loans payable		
OAO "Alfa-Bank"	16,400	–
Receivable from related party		
VimpelCom	109	35
Golden Telecom	252	451
Other accounts payable		
VimpelCom	6	1
CTF Holding Ltd.	256	–

Alfa-Bank
The Group has an open credit line with Alfa-Bank. This credit line has a maximum limit of USD 150,000 and a floating interest rate. At 31 December 2006 the annual interest rate on this credit line was 6,9%–7,52% p.a. (31 December 2005: 8.75%). At 31 December 2006 the Group had utilised USD 40,000 of this credit line (31 December 2005: nil) (Note 31) and therefore had available credit lines of USD 110,000.

Vimpelcom and Golden Telecom are not related parties of the Group under IAS 24, however, management of the Group has decided to disclose transactions and balances with these companies due to the significant influence of CTF Holdings Ltd.

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

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

	2006	2005
Operating lease expenses	881	458

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

	31.12.2006	31.12.2005
Accounts payable	152	531

OOO "Rusel" and OOO "Rusel M"

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

	2006	2005
Outsourcing services provided by the Group	1,549	–
Rental income received by the Group	481	–

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

	31.12.2006	31.12.2005
Accounts receivable	504	–

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

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

	2006	2005
Advertising services provided by the Group	3,325	–

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

	31.12.2006	31.12.2005
Accounts receivable	115	–

OOO "Makromir"

The following transactions were carried out with OOO "Makromir":

	2006	2005
Construction services provided to the Group	761	–

The consolidated financial statements include the following balances with OOO "Makromir":

	31.12.2006	31.12.2005
Accounts receivable	642	–

OOO "Firma Sladkaya Zhizn"

OOO "Firma Sladkaya Zhizn" was one of the significant suppliers of goods for resale for the Group and was affiliated with one of the minority shareholders, who was also a member of the senior management of the Group. With effect from the beginning of 2006 this company was excluded from related parties as the individual resigned from management and is no longer a shareholder.

The following transactions were carried out with OOO "Firma Sladkaya Zhizn":

	2006	2005
Purchase of goods for resale	–	34,383

The consolidated financial statements include the following balances with OOO "Firma Sladkaya Zhizn":

	31.12.2006	31.12.2005
Accounts receivable	–	20
Trade accounts Payable	–	2,226

Donette Investments Limited

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

Key management personnel compensation

Key management personnel compensation is disclosed in Note 27.

11. CASH

	31.12.2006	31.12.2005
Cash in hand — Roubles	6,207	2,557
Cash in hand — Ukrainian Hryvnia	86	115
Bank current account — Roubles	61,740	6,487
Bank current account — Ukrainian Hryvnia	164	138
Bank current accounts and deposits — US Dollars	32,075	614
Cash in transit — Roubles	67,362	19,794
Cash in transit — Ukrainian Hryvnia	354	362
	167,988	**30,067**

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

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2005	160,198	47,509	17,740	930	7,676	27,777	261,830
Additions	5,989	17,537	5,936	1,026	1,823	115,592	147,903
Transfers	65,113	17,367	468	69	2,844	(85,861)	–
Assets from acquisitions	2,902	838	456	85	510	5	4,796
Disposals	(1,276)	(217)	(213)	(53)	(366)	(6,023)	(8,148)
Disposal of subsidiaries	–	(33)	(59)	–	(12)	–	(104)
Translation movement	(7,764)	(2,626)	(806)	(55)	(453)	(1,325)	(13,029)
At 31 December 2005	225,162	80,375	23,522	2,002	12,022	50,165	393,248
Additions	69,488	31,306	2,468	1,601	4,566	147,213	256,642
Transfers	93,306	11,894	19,750	3,826	41,996	(170,772)	–
Assets from acquisitions (Note 8)	487,297	14,388	41,005	5,951	34,310	177,113	760,064
Disposals	(13,529)	(3,742)	(476)	(1,088)	(2,003)	(140)	(20,978)
Disposal of subsidiaries (Note 9)	–	(121)	–	–	(18)	–	(139)
Translation movement	37,143	9,157	3,822	398	3,157	5,499	59,176
At 31 December 2006	898,867	143,257	90,091	12,690	94,030	209,078	1,448,013
Accumulated depreciation:							
At 1 January 2005	(19,788)	(17,744)	(7,512)	(248)	(4,926)	–	(50,218)
Charge for the period	(7,103)	(10,574)	(2,674)	(164)	(2,546)	–	(23,061)
Disposals	211	205	7	20	521	–	964
Disposal of subsidiaries	–	37	–	–	7	–	44
Translation movement	1,780	695	335	26	785	–	3,621
At 31 December 2005	(24,900)	(27,381)	(9,844)	(366)	(6,159)	–	(68,650)
Charge for the period	(21,071)	(16,747)	(6,029)	(1,362)	(14,430)	–	(59,639)
Disposals	1,453	3,225	302	326	52	–	5,358
Disposal of subsidiaries (Note 9)	–	120	–	–	18	–	138
Translation movement	(4,259)	(2,363)	(1,298)	(128)	(5,222)	–	(13,270)
At 31 December 2006	(48,777)	(43,146)	(16,869)	(1,530)	(25,741)	–	(136,063)
Net book value at 31 December 2006	**850,090**	**100,111**	**73,222**	**11,160**	**68,289**	**209,078**	**1,311,950**
Net book value at 31 December 2005	**200,262**	**52,994**	**13,678**	**1,636**	**5,863**	**50,165**	**324,598**
Net book value at 1 January 2005	**140,410**	**29,765**	**10,228**	**682**	**2,750**	**27,777**	**211,612**

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

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 31). Certain land leases are prepaid for the 49 year term. Such prepayments are presented as non-current prepaid leases in the balance sheet and amount to USD 52,022 (31 December 2005: USD 4,218).

The Group leases certain assets under finance leases (Note 20). At 31 December 2006 and 31 December 2005 the net book value of the property, plant and equipment held under finance lease arrangements was:

	31.12.2006	31.12.2005
Gross book value:		
Vehicles	9,150	–
Refrigerating equipment	2,699	–
	11,849	–
Accumulated depreciation:		
Vehicles	(1,873)	–
Refrigerating equipment	(567)	–
	(2,440)	–
Net book value of property, plant and equipment obtained under finance lease arrangements	**9,409**	–

Refer to Note 19 for property, plant and equipment pledged as collateral for borrowings.

13. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	2006	2005
Gross book value at 1 January	24,153	15,619
Accumulated impairment losses at 1 January	–	–
Carrying amount at 1 January	**24,153**	**15,619**
Acquisition of subsidiaries (Note 8)	2,537,557	9,095
Impairment loss	–	–
Translation to presentation currency	61,239	(561)
Carrying amount at 31 December	**2,622,949**	**24,153**
Gross book value at 31 December	2,622,949	24,153
Accumulated impairment losses at 31 December	–	–
Carrying amount at 31 December	**2,622,949**	**24,153**

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs) which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	Number of stores	31.12.2006	Acquisition of subsidiaries (Note 8)	Translation movement	31.12.2005
Pyaterochka operations*	444	2,504,794	2,446,960	57,834	–
Merkado operations*	17	92,145	90,597	1,548	–
Operations in Moscow, Russia	3	3,006	–	256	2,750
Operations in Nizhniy Novgorod, Russia	14	12,807	–	1,089	11,718
Operations in Yaroslavl, Russia	4	5,762	–	491	5,271
Operations in Samara, Russia	1	246	–	21	225
Operations in Kiev, Ukraine	4	4,189	–	–	4,189
		2,622,949	2,537,557	61,239	24,153

• Goodwill is allocated on provisional basis (Note 8).

Goodwill has been tested for impairment at the CGU level by comparing carrying values of CGU assets including allocated goodwill to their recoverable amounts.

For goodwill arising from acquisitions prior to this reporting period

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2006	2005
EBITDA growth rate	1% p.a.	1% p.a.
Pre-tax discount rate	10% p.a.	14% p.a.

Based on the results of the calculations and the applied assumptions the Group concluded that no impairment charge was required. If the EBITDA actually declined by 17% annually the Group would need to reduce the carrying amount of goodwill by USD 48. If the pre-tax discount rate increased to 31% p.a. the Group would need to reduce the carrying amount of goodwill by USD 100.

Goodwill arising from Pyaterochka operations

The recoverable amount of Pyaterochka operations was determined as the higher of fair value less cost to sell or value in use. The fair value less cost to sell was defined by reference to an active market, i.e. market capitalization of the Group on the London stock exchange at 31 December 2006. Market capitalization of Pyaterochka operations was defined as part of the market capitalization of the Group, pro-rated between Pyaterochka operations and Perekrestok operations based on EBITDA for the year ended 31 December 2006. The fair value less cost to sell significantly exceeded the value in use of Pyaterochka operations and, thus, was taken as the recoverable amount for the purpose of the impairment test. The recoverable amount of Pyaterochka operations exceeded its carrying amount therefore no impairment was recognised.

Goodwill arising from Merkado operations
The recoverable amount of Merkado operations was determined as the higher of fair value less cost to sell or value in use. However due to the relatively insignificant value of Merkado assets acquired at the end of the year the value in use approach is used in testing the Merkado goodwill for impairment. More particularly, a discounted free cash flow approach, based on current acquisition valuation models, was utilized.

The Group engaged Neo Centre, an independent valuation specialist, in order to assess the level of impairment of goodwill on the Merkado operations. For the period from 2007 until 2015 the free cash flows are based on the strategic plan as approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price indices as obtained from external resources and based on key performance indicators inherent to the strategic plan. The projections are made in the reporting currency of the Group and discounted at the Group weighted average cost of capital, 10% in US dollar nominal terms. The Group's management believes that all of its estimates are reasonable: they are consistent with the internal reporting and reflect management's best estimates. As the result of the assessment no impairment charge was recognised.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2006
EBITDA growth rate	9% p.a.
Pre-tax discount rate	10% p.a.

If the EBITDA of Merkado operations actually declined by 7% annually the Group would need to reduce the carrying amount of goodwill by USD 14,710. If the pre-tax discount rate increased to 14% p.a. the Group would need to reduce the carrying amount of goodwill by USD 17,627.

14. INTANGIBLE ASSETS

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost:					
At 1 January 2005	–	–	1,148	–	1,148
Additions	–	–	246	15,864	16,110
Acquisition of subsidiaries	–	–	45	3,131	3,176
Disposals	–	–	(120)	–	(120)
Translation movement	–	–	(39)	143	104
At 31 December 2005	–	–	1,280	19,138	20,418
Additions	–	–	341	6,253	6,594
Acquisition of subsidiaries (Note 8)	323,526	69,866	4,034	76,209	473,635
Disposals	–	–	(38)	–	(38)
Translation movement	7,689	1,660	241	3,216	12,806
At 31 December 2006	331,215	71,526	5,858	104,816	513,415
Accumulated amortisation:					
At 1 January 2005	–	–	(472)	–	(472)
Charge for the period	–	–	(365)	(672)	(1,037)
Disposals	–	–	115	–	115
Translation movement	–	–	18	(2)	16
At 31 December 2005	–	–	(704)	(674)	(1,378)
Charge for the period	(10,348)	(4,507)	(1,854)	(2,749)	(19,458)
Translation movement	(86)	(74)	(122)	(38)	(320)
At 31 December 2006	(10,434)	(4,581)	(2,680)	(3,461)	(21,156)
Net book value at 31 December 2006	**320,781**	**66,945**	**3,178**	**101,355**	**492,259**
Net book value at 31 December 2005	**–**	**–**	**576**	**18,464**	**19,040**
Net book value at 1 January 2005	**–**	**–**	**676**	**–**	**676**

15. INVENTORIES OF GOODS FOR RESALE

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

	31.12.2006	31.12.2005
Goods held for resale	210,543	70,165
Less: provision for shrinkage	(1,967)	(1,589)
	208,576	**68,576**

Refer to Note 19 for goods pledged as collateral for borrowings.

Inventory shrinkage recognised as cost of goods sold in the consolidated income statement amounted to USD 28,906 (2005: USD 11,476).

16. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31.12.2006	31.12.2005
Trade accounts receivable	38,442	13,392
Advances made to trade suppliers	51,985	1,313
Other receivables	29,641	4,694
Deferred expenses and prepayments	28,210	6,191
Accounts receivable for franchise services	1,287	–
Accounts receivable for sales of property, plant and equipment	2,770	7
Receivables from related parties (Note 10)	1,622	486
Provision for impairment of trade and other receivables	(5,732)	(1,555)
	148,225	**24,528**

17. VAT AND OTHER TAXES RECOVERABLE

	31.12.2006	31.12.2005
VAT recoverable	85,771	58,628
Income tax receivable	6,161	–
Other taxes receivable	3,663	456
	95,595	**59,084**

VAT recoverable related to property, plant and equipment of USD 54,202 (31 December 2005: USD 26,493) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. Timing of the VAT refund depends on the registration of certain property, plant and equipment, therefore there are risks that recovering the balance may take longer than twelve months.

18. OTHER LIABILITIES

	31.12.2006	31.12.2005
Taxes other than income tax	21,836	7,175
Provision for tax contingencies (Note 31)	55,773	8,000
Accrued salaries and bonuses	61,366	14,742
Payables to landlords	7,635	1,236
Other accounts payable and accruals	16,675	4,764
Accounts payable for services received	7,979	–
Accounts payable for property, plant and equipment	20,005	–
Advances received	9,441	–
	200,710	**35,917**

The increase in provisions for tax contingencies is attributable to income taxes (Note 29) and Value Added Taxes.

19. BORROWINGS

	Currency	Interest rate, % p.a.	31.12.2006	31.12.2005
Short-term				
Current portion of Syndicated loan*	USD	LIBOR + 2.25%	112,000	–
Current portion of Perekrestok's bonds **	RR	8.15%	56,725	51,715
Alfa-Bank	USD	6.9%–7.52%	16,400	–
UralSib Bank	USD	6.95%	12,760	–
UralSib Bank	USD	7.40%	–	750
Raiffeisenbank overdraft	RR	7.19%–7.34%	6,266	–
Sberbank	RR	11.00%	11,431	–
AKB BIN Bank	RR	16.00%	2,279	–
Other	RR	–	152	137
			218,013	52,602
Long-term				
Syndicated loan *	USD	LIBOR + 2.25%/2.50%	788,016	–
Pyaterochka Finance's bonds — 1st issue ***	RR	11.45%	60,667	–
Pyaterochka Finance's bonds — 2nd issue ***	RR	9.30%	121,590	–
Perekrestok's bonds **	RR	8.15%	56,725	51,715
Bank Petrocommerce	RR	11.00%	90,850	–
Old syndicated loan (USD part)	USD	LIBOR+3%	–	70,176
Old syndicated loan (Euro part)	Euro	EURLIBOR+3	–	73,913
Less:				
Current portion of Syndicated loan*	USD	LIBOR + 2.25%	(112,000)	–
Current portion of Perekrestok's bonds **	RR	8.15%	(56,725)	(51,715)
			949,123	144,089
Total borrowings			**1,167,136**	**196,691**

- In May 2006 the Company raised USD 800,000 from a consortium of banks. The loan is divided into two tranches as follows:
  - USD 450,000 for three years bearing interest at LIBOR plus 2.25%, repayable as follows: USD 112,000 on each of the 18th, 24th and 30th month of the loan and a final payment of USD 114,000 on maturity, i.e. in May 2009. Of the USD 450,000, USD 300,000 was paid to Perekrestok Holdings Limited shareholders as part of the acquisition of Pyaterochka Holding N.V. (Note 8) and USD 150,000 was utilised to refinance existing debt of the Group.
  - USD 350,000 bearing interest at LIBOR plus 2.5% and increasing to LIBOR plus 3% after one year and has a three-year maturity. This portion of the loan is being used to finance the future development of the combined Group. The full amount of the second tranche was utilised as at 31 December 2006.

  The syndicated loan at 31 December 2006 is shown net of related transaction costs of USD 11,984 (31 December 2005: nil), which are amortised over the term of the loan using the effective interest method. LIBOR rate is repriced every quarter.

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

** In July 2005 the Group issued Russian Rouble denominated bonds in the amount of RR 1,500 million (USD 52,217 at the time of issue). The bonds have a maturity of 3 years. Coupon income is payable twice a year. The interest rate for the first and second coupon is 8.15% p.a. The interest rates on further coupon payments will be determined by management of the Group based on current market conditions and these interest rates will be announced in July 2007. The bond holders have a right to redeem the bonds in July 2007, therefore all the bonds are classified as a current liability in these consolidated financial statements. The bond origination costs amounted to USD 400. They reduced the amount of bonds drawn down and are amortised over the estimated life of the bonds.

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

- The first series of bonds was issued by Pyaterochka Finance in March 2005. The aggregate nominal value of the first issue amounted to RR 1,500 million (USD 56,967 as of 31 December 2006). The first series of bonds has a maturity of five years and bears interest at a fixed rate of 11.45% per annum. Interest is payable every six months.
- The second series of bonds was issued by Pyaterochka Finance in December 2005. The aggregate nominal value of the second issue amounted to RR 3,000 million (USD 113,934 as of 31 December 2006). The second series of bonds has a maturity of five years and bears interest at a fixed rate of 9.3% per annum. Interest is payable every six months.

Under borrowing agreements with Bank Petrocommerce and Sberbank, the Group has pledged property, plant and equipment with a net book value of USD 170,418 (31 December 2005: nil) and goods held for resale with a carrying value of USD 30,095 (31 December 2005: nil).

Compliance with covenants. The Group is subject to certain covenants on its borrowings and, at 31 December 2006, was in compliance with those covenants. Non-compliance with such covenants would have negative consequences for the Group including an increase in the cost of borrowings and, potentially, a declaration of default.

Loans received and repaid after the reporting date are described in Note 32.

Maturity of non-current borrowings:

	31.12.2006	31.12.2005
1 to 3 years	676,016	144,089
3 to 5 years	273,107	–
More than 5 years	–	–
	949,123	**144,089**

20. OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain refrigerating equipment and vehicles under finance lease terms. The agreements expire in 2007-2009 and assume a transfer of ownership for the leased assets to the Group at the end of the lease term. The effective borrowing rate on lease agreements as of 31 December 2006 varies from 9.0% to 11.0% per annum on USD agreements and from 24.0% to 31.0% per annum on RR agreements. The fair value of the finance lease liability as of 31 December 2006 approximates its carrying amount.

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

	Minimum leasepayments		Present value of minimum lease payments	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Amounts payable :				
Within one year	3,261	–	2,271	–
In the second to fifth years inclusive	3,879	–	2,913	–
	7,140	–	5,184	–
Less: future finance charges	(1,956)	–	N/A	N/A
Present value of minimum lease payments	**5,184**	–	**5,184**	–

21. SHARE CAPITAL

As described in Note 2.1 the equity structure of the Group represents the equity structure of X5 Retail Group N.V. As of 1 January 2006 the Company had 38,306,785 ordinary shares issued and fully paid. The nominal par value of each ordinary share is EUR 1. The Company has only one class of ordinary shares. Because the acquisition (Note 8) is accounted for as a reverse acquisition of Pyaterochka Holding N.V. by Perekrestok Holdings Ltd., the comparative amount of share capital of USD 30 as at 31 December 2005 reflects the share capital of Perekrestok Holdings Ltd. (Note 2.1).

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

During the year 2006 the Group repurchased 902,278 ordinary shares for general corporate purposes, including funding the employees' share option program (ESOP) liabilities and potential acquisitions. As of 31 December 2006 the Group had 190,000,000 authorised ordinary shares of which 53,217,760 ordinary shares are outstanding. As of 31 December 2006 the fair value of outstanding shares amounted to USD 5,534,647.

No dividends were paid or declared during the year ended 31 December 2006 or the year ended 31 December 2005 other than the USD 300,000 payment to former shareholders of Perekrestok Holdings Ltd. as disclosed in Note 8.

22. EARNINGS PER SHARE

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

Earnings per share are calculated as follows:

	31.12.2006	31.12.2005
Profit attributable to equity holders of the Parent	84,212	29,132
Weighted average number of ordinary shares in issue	39,492,210	15,813,253
Weighted average number of ordinary shares for the purposes of diluted earnings per share	39,790,482	15,813,253
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**2.13**	**1.84**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**2.12**	**1.84**

23. REVENUE

	2006	2005
Revenue from sale of goods	2,791,532	1,012,667
Revenue from franchise services	7,050	647
Revenue from other services	4,769	1,471
	2,803,351	**1,014,785**

24. OPERATING EXPENSES

	2006	2005
Staff costs (Note 27)	302,552	105,208
Third party services	142,201	58,366
Operating lease expenses	107,157	40,661
Depreciation and amortisation (Notes 12, 14)	79,098	24,098
Taxes other than income tax	12,069	5,178
Other operating expenses	26,142	8,890
	669,219	**242,401**

Operating lease expenses include USD 105,799 (2005: USD 39,251) of minimum lease payments and contingent rents of USD 1,358 (2005: USD 1,410).

Provision for impairment of trade and other receivables amounted to USD 4,073 during the year ended 31 December 2006 (31 December 2005: USD 1,746).

25. OPERATING LEASES

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

	31.12.2006	31.12.2005
Not later than 1 year	16,153	6,547
Later than 1 year and no later than 5 years	6,782	198
Later than 5 years	1,952	–
	24,887	**6,745**

The rental income from operating leases recognised in the income statement amounted to USD 35,268 (2005: USD 11,469). There were no contingent rents recognised in the income statement in 2006 (2005: nil).

26. FINANCE INCOME AND COSTS

	2006	2005
Interest expense	62,952	14,572
Interest income	(1,432)	(177)
	61,520	**14,395**

27. STAFF COSTS

	2006	2005
Wages and salaries	254,544	93,361
Social security costs	20,306	11,847
Share-based payments expense	27,702	–
	302,552	**105,208**

Key executive management personnel

Key management personnel and members of the Supervisory Board of the Company receive compensation in the form of short-term employee benefits and share-based payments (Note 28). For 2006 key management personnel and members of the Supervisory Board of the Company were entitled to total short-term compensation of USD 16,467 (2005: USD 5,652), including bonuses of USD 7,282 (2005: USD 3,648) and share-based payments of USD 6,321 (2005: nil). The compensation is made up of an annual remuneration and a performance bonus depending on operating results. Reference is made to Note 39 for further details on the directors' compensation.

The average number of employees of the Group for the years ended 31 December 2006 and 2005 were as follows.

	12 months ended 31 December 2006	2005
Group, not including Pyaterochka Holding N.V. operations	16,876	12,689
Pyaterochka Holding N.V. operations	16,952	–
Total	33,828	12,689

28. SHARE-BASED PAYMENTS

With the acquisition of Pyaterchka Holding N.V., the Group acquired a liability for share-based payments of USD 42,288 (Note 8). Pyaterochka Holding N.V. approved this employee stock option program (ESOP) for certain of its key employees with options granted on 16 August 2005 and 2 December 2005 on a total of 6,129,088 GDRs. Terms of the arrangement provided an employee with the choice of whether the transaction will be settled in cash or by issuing equity instruments. Each option equaled a Global Depository Receipt. Options were exercisable at a fixed price equal to EUR 0.25 per GDR (approximately USD 0.30). The vesting period varied from 3 to 5 years. 1,436,505 of the total options were attached with vesting conditions other than length of service, such as: (i) the development of the EBITDA; (ii) the development of costs and expenses and/or (iii) other parameters. Options lapsed if they remain unexercised after a period of one year from the date of vesting.

On 2 November 2006, with the agreement of the stock option holders the Supervisory Board approved the ESOP cancellation by which the existing stock options would be terminated and the beneficiaries would receive a one-off cash payment. As a result, the ESOP cancellation liability required the compensation of USD 65,568 which implies approximately USD 11 per GDR and related auxillary expenses of USD 4,422. A liability of USD 69,990 was recorded at the year-end and will be payable in the first half of 2007. In total during the year ended 31 December 2006 the Group recognised expenses related to the ESOP in the amount of USD 27,702 (2005: nil). The Group has no future liabilities under this ESOP.

In March 2007 the Group announced a new employee stock option program for its key executives and employees (See Note 32).

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

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

29. INCOME TAX

	Year ended 31 December 2006	2005
Current income tax charge	63,660	7,075
Deferred income tax (benefit)/charge	(27,598)	1,999
Income tax charge for the year	36,062	9,074

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2006	2005
Profit before taxation	120,274	38,093
Theoretical tax at the effective statutory rates*	28,856	9,449
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of income taxable at rates different from standard statutory rates	(15,688)	(10,871)
Inventory shrinkage expenses	6,937	2,754
Other non-deductible expenses	9,691	4,257
Provision for tax contingencies (Note 31)	6,266	3,485
Income tax charge for the year	36,062	9,074

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

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

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2006:

	31.12.2005	Credited to profit and loss	Deferred tax on business combinations (Note 8)	Deferred tax asset in disposed subsidiaries (Note 9)	Recognised in equity for translation differences	31.12.2006
Tax effects of deductible temporary differences and tax loss carryforwards:						
Tax losses available for carry forward	1,269	(1,343)	–	–	74	–
Property, plant and equipment	–	3,468	4,090	–	117	7,675
Accounts Receivable	3,001	1,245	1,170	–	359	5,775
Liability for share based expenses	–	16,284	–	–	–	16,284
Other	(1,131)	2,591	6,710	(76)	556	8,650
Gross deferred tax asset	3,139	22,245	11,970	(76)	1,106	38,384
Less offsetting with deferred tax liabilities	(3,139)	(5,962)	(10,337)	76	(396)	(19,758)
Recognised deferred tax asset	–	16,283	1,633	–	710	18,626
Tax effects of taxable temporary differences:						
Property, plant and equipment	(14,764)	1,522	(68,718)	–	(2,585)	(84,545)
Intangible assets	(5,049)	3,831	(109,053)	–	(2,546)	(112,817)
Gross deferred tax liability	(19,813)	5,353	(177,771)	–	(5,131)	(197,362)
Less offsetting with deferred tax assets	3,139	5,962	10,337	(76)	396	19,758
Recognised deferred tax liability	(16,674)	11,315	(167,434)	(76)	(4,735)	(177,604)

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 162,573 (31 December 2005: USD 1,510) for which the deferred tax liability was not recognised as such amounts are reinvested for the foreseeable future.

Current portion of deferred tax liability amounted to USD 13,420 (31 December 2005: USD 3,800), current portion of deferred tax asset amounted to USD 17,467 (31 December 2005: nil)

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2005:

	31.12.2004	Charged to profit and loss	Deferred tax on business combinations	Deferred tax asset in disposed subsidiaries	Recognised in equity for translation differences	31.12.2005
Tax effects of deductible temporary differences and tax loss carryforwards:						
Tax losses available for carry forward	1,471	(152)	–	–	(50)	1,269
Accounts Receivable	795	2,600	–	(28)	(366)	3,001
Other	(140)	(1,046)	–	–	55	(1,131)
Gross deferred tax asset	**2,126**	**1,402**	**–**	**(28)**	**(361)**	**3,139**
Less offsetting with deferred tax liabilities	(2,126)	(1,402)		28	361	(3,139)
Recognised deferred tax asset	**–**	**–**	**–**	**–**	**–**	**–**
Tax effects of taxable temporary differences:						
Property, plant and equipment	(15,563)	772	(678)	–	705	(14,764)
Intangible assets	(143)	(4,173)	(783)	–	50	(5,049)
Gross deferred tax liability	**(15,706)**	**(3,401)**	**(1,461)**	**–**	**755**	**(19,813)**
Less offsetting with deferred tax assets	2,126	1,402	–	(28)	(361)	3,139
Recognised deferred tax liability	**(13,580)**	**(1,999)**	**(1,461)**	**(28)**	**394**	**(16,674)**

30. FINANCIAL RISKS

Credit risk

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

Foreign exchange and interest rates risk

The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 19). The Group uses an interest rate swap with HSBC to hedge the interest rate and a foreign exchange collar with ABN Amro Bank to hedge foreign currency risks. As a result, Libor has been fixed at 5 per cent p.a. for the lifetime of the Syndicated loan (Note 19), and the foreign exchange collar at 32.4 and 23.85 RUR/USD. Management did not formally designate the interest rate swap and the foreign exchange collar as hedging instruments and did not applied hedge accounting.

Fair values
The fair value of bonds traded on the MICEX is determined based on market quotations and amounted to USD 237,221 at 31 December 2006 (31 December 2005: USD 52,193). The carrying value of these bonds amounted to USD 238,982 at 31 December 2006 (31 December 2005: USD 51,715) (Note 19).

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

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

Liquidity risk
At 31 December 2006 the Group has negative working capital of USD 436,521 (31 December 2005: USD 34,364). As described in the Note 19, the whole carrying amount of Perekrestok's bonds of USD 56,725 is classified as a current liability but in fact a significant proportion will probably be carried forward to 2008 if the interest rates set in July 2007 are competative.

Furthermore, at 31 December 2006 the Group had available credit lines with Alfa-Bank (Note 10) of USD 110,000 (31 December 2005: nil).

Management considers that the available credit lines and expected operating cash flows are sufficient to finance the Group's current operations.

The Group plans to issue 25 billion RUR callable bonds in 3 tranches during 2007 — early 2008 to refinance the Group's existing debt and fund its store expansion.

31. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases
At 31 December 2006, the Group operated 353 stores through rented premises (31 December 2005: 73). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts and predominantly denominated in USD. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover.

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

	2006	2005
During 1 year	65,199	30,897
In 2 to 5 years	184,936	101,676
Thereafter	116,244	106,914
	366,379	**239,487**

Capital expenditure commitments
At 31 December 2006 the Group had contracted for capital expenditure of USD 96,022 (including VAT) (31 December 2005: USD 25,483).

Taxation environment
Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In particular, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systematic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

Russian tax legislation does not provide definitive guidance in many areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the 3 years tax inspection right has expired but which, under certain circumstances, may be challenged by regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management has recorded provisions and contingent liabilities of USD 55,773 (31 December 2005: USD 8,000) in these consolidated financial statements as their best estimate of potential liabilities arising from such tax contingencies. However, the range of potential exposures has not been disclosed to avoid prejudicing the Group's position. Management has taken active steps to reduce the possibility of such risks in the future.

During the year the Group recorded USD 40,000 of provisions for tax contingencies arising from business combinations (Note 8) and recorded additional tax provisions of USD 7,773.

32. SUBSEQUENT EVENTS

Announcement of a new Employee stock option program

In March 2007 the Group announced the launch of a new employee stock option program (ESOP) for its key executives and employees. Under the terms of the plan, its beneficiaries may be granted options to acquire the economic benefit in, or receive the cash value of, a certain number of GDRs.

The total number of share options is capped at 10,824,000 GDRs. The program will run through to 18 May 2010. The options will be granted in four equal tranches, issued over a period of four years (2007 through 2010) with immediate vesting for the first grant, an 11 month vesting for the second grant and a one year vesting for the third and fourth grant. The exercise price of the first grant will be USD 18 per GDR (the share price at the date of the merger on 18 May 2006), the exercise price of the consequent three option tranches will be equal to the average market value of the shares represented in GDRs during 30 days prior to the vesting date of each of these options.

The total number of participants is not limited and is expected to vary during its lifetime, but it is anticipated to cover about one hundred top employees and managers of the Company.

The approval of the ESOP is within the competence of the General Meeting of Shareholders of the Company. As such, the ESOP will only officialy and legaly be adopted in case of approval on the General Meeting of Shareholders.

Settlement of Merkado's debts

Metronom AG's mortgage loans provided by Petrokommerz, Sberbank and Binbank which were outstanding in total amount of USD 104,522 as at 31 December 2006 and bore interest rates of 11 to 16 per cent p.a., were refinanced with other lenders at the end of January 2007.

Announcement of secondary offering

In April 2007 the Supervisory Board approved the management proposal to make a secondary public offering of the Group's new ordinary shares during 2007 to raise USD 1,000,000 to finance potential M&A deals and organic growth plans. The approval of any secondary offering is within the competence of the General Meeting of Shareholders of the Company and as such will only be adopted in case of approval on the General Meeting of Shareholders.

Business combination in Ekaterinburg and Chelyabinsk

In April 2007 the Group restructured its operations in Ekaterinburg and Chelyabinsk (Russia) by means of creation of a merger with a local franchisee. As the result, the Group received 51% of the new company and the owner of Pyaterochka franchises received 49%, which the Group agreed to purchase out in 2008 (24%) and in 2009 (25%).

Company Financial Statements

COMPANY BALANCE SHEET OF X5 RETAIL GROUP N.V.

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

(before appropriation of net result)	Notes	31.12.2006	31.12.2005
Assets			
Fixed assets			
Financial fixed assets	34	1,935,662	113,300
Current assets			
Amounts due from related parties		18,882	0
Prepayments		13,084	0
Cash		578	61
		32,544	61
		1,968,206	113,361
Shareholders' equity and liabilities			
Shareholders' equity	35		
Paid up and called up share capital		71,196	45,497
Share premium account		1,104,453	59,607
Other reserves		(126)	5,312
Unappropriated (loss)/profit of the year		(5,392)	(5,760)
Currency translation reserve		(5,257)	1,062
		1,164,874	105,718
Long-term liabilities			
Tax liability Speak Global Ltd.		0	5,000
Bank loans	36	784,197	0
		784,197	5,000
Short-term liabilities			
Amounts due to related parties	37	6,568	2,334
Amounts due to shareholder		0	67
Accrued expenses		12,567	242
		19,135	2,643
		1,968,206	113,361

COMPANY INCOME STATEMENT OF X5 RETAIL GROUP N.V.

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

	Notes	31.12.2006	31.12.2005
Share in result of participations		400	499
Other income and expenses	38	(5,792)	(6,259)
Result after taxation		(5,392)	(5,760)

NOTES TO THE COMPANY'S ANNUAL ACCOUNTS

33. NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in The Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code. The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission. Consequently the consolidated financial statements of the group for the year ending 31 December 2006 have been prepared accordingly.

In accordance with Section 362 paragraph 7, Part 9 of Book 2 of the Dutch Civil Code, the presentation currency in the annual report is USD as a result of the international bifurcation of the company. As the company exploits Russian supermarkets, the functional currency of the company is the Russian Rouble as this is the currency of its primary business environment and reflects the economic reality. Reference is made to section 2.5 (a) of the notes to the Consolidated Financial Statements with regard to the accounting policy for the translation from functional currency to presentation currency.

Financial fixed assets

Due to the international structure of the company, the participations in group companies are valued at historical cost. Provisions for impairment are taken into account when necessary.

On 18 May 2006 the entirety of the share capital of Perekrestok Holdings Limited was contributed to the Company which is the deemed cost under Dutch GAAP.

Other assets and liabilities

Reference is made to the accounting principles applied to the assets and liabilities as disclosed in section 2 (summary of significant accounting policies) of the notes to the Consolidated Financial Statements.

Shareholders' Equity

Issued and paid up share capital, which is denominated in Euro, is restated into Russian Rouble at the exchange rate as of balance date in accordance with section 373 sub 5 of book 2 of the Dutch Civil Code. The difference is settled with the currency translation adjustment reserve.

Other income and expenses

Reference is made to the accounting principles as applied to the income and expense recognition in section 2.25 of the notes to the Consolidated Financial Statements.

34. FINANCIAL FIXED ASSETS

	31.12.2006	31.12.2005
a. Movements in the interests in group companies have been as follows:		
Opening balance	113,300	56,013
Acquisitions/informal capital contribution	1,368,239	55,980
Other movements/foreign exchange differences	0	1,307
Closing balance	1,481,539	113,300

A complete list of group companies has been disclosed in the consolidated financial statements.

b. Movements in the loans to group entities have been as follows:		
Balance 1 January 2006 (2005)	0	0
Received	461,974	0
Currency exchange rate differences	(7,851)	0
Balance 31 December 2006 (2005)	454,123	0

The long-term receivables comprise of loans receivable from Speak Global Ltd, Alpegru Ltd and Grasswell Ltd., all group related entities. The loans have not been secured, attract 12.5 % interest per annum. The loan to Alpegru Ltd and Grasswell Ltd. mature in November 2009, the loan to Speak Global Ltd. matures in March 2010.

Total Financial fixed assets	1,935,662	113,300

35. SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other reserves	Unappr. results	Currency translation adjustment	Total
Balance as per 01.01.2005	52,253	3,762	(3,878)	2,625	2,872	57,634
Contribution of subsidiary	–	55,980	–	–	–	55,980
Transfer	–	–	2,625	(2,625)	–	–
Currency translation adj.	(6,756)	(135)	6,565	–	(1,810)	(2,136)
Result for the period	–	–	-	(5,760)	-	(5,760)
Balance as per 01.01.2006	45,497	59,607	5,312	(5,760)	1,062	105,718
Contribution of subsidiary	20,209	1,044,339				1,064,548
Transfer			(5,760)	5,760		–
Currency translation adj.	5,490	507	322		(6,319)	–
Result for the period				(5,392)		(5,392)
Balance as per 31.12.2006	71,196	1,104,453	(126)	(5,392)	(5,257)	1,164,874

Movements in the differences between the company and consolidated equity and profit/loss in the financial year are as follows.

Difference in equity:	31.12.2006	31.12.2005
Equity per Company financial statements	1,164,874	105,718
Revaluation reserve re PP&E only in consolidated financial statements	27,847	25,476
Increase in share premium not in consolidated financial statements	(58,188)	(58,188)
Distribution to shareholders only in consolidated financial statements	(59,635)	(59,635)
Historical result of group	180,358	83,354
Dividends received from subsidiaries	0	(18)
Results from subsidiaries for the year	89,604	97,022
Currency exchange differences	16,052	2,064
Equity change as an effect of reverse acquisition transaction	1,529,125	0
Equity per consolidated financial statements	2,890,037	195,793

The 2005 comparatives for net assets in the amount of USD 195.793 recognized in the Company's balance sheet differ from the net assets value of USD 181.986 as presented in the consolidated financials statements of the Company as of 31 December 2005 due to the fact that the consolidated financial statements of X5 Retail Group N.V. as of 31 December 2006 represent a continuation of the consolidated financial statements of Perekrestok Holdings Ltd. and thus the comparative information presented in these consolidated financial statements is that of Perekrestok Holdings Ltd.

Difference in profit/loss	31.12.2006	31.12.2005
Loss according to company annual accounts	(5,392)	(5,760)
Results from subsidiaries for the year	89,604	97,022
Profit according to consolidated annual accounts	84,212	91,262

Share capital issued

The authorised share capital of the Company amounts to EUR 190,000,000 divided into 190,000,000 shares of EUR 1 each.

Perekrestok Holdings Limited was contributed in 2006 against an issuance of 15,813,253 shares of EUR 1 and a payment of share premium in the amount of USD 1,044,338,854.

As at 31 December 2006, the issued and paid-up share capital amounts to EUR 54,120,038 and consists of 54,120,038 shares of EUR 1 each (2005: 38,306,785 shares of each EUR 1). This has been recalculated into USD with an exchange rate of 1 EUR = 1,3185 USD (2005: 1 EUR = 1,1877 USD).

36. BANK LOANS

	31.12.2006	31.12.2005
Movement in the bank loans have been as follows:		
Received	800,000	0
Currency rate exchange differences	(15,803)	0
Closing balance	784,197	0

The bank loans comprise of loans payable to RZB Bank. The loans have been secured, attract between LIBOR+2% and LIBOR+3% interest per annum. In this respect reference is made to note 19 of the Consolidated Financial Statements. Redemption shall take place as follows:

In the year 2007:	USD 112 million
In the year 2008:	USD 224 million
In the year 2009:	USD 464 million
Total	USD 800 million

37. AMOUNTS DUE TO RELATED PARTIES

The short-term liabilities comprise of a loan payable to Speak Global Ltd, a subsidiary. The loan has not been secured, matured at July 2006 and bears interest of 3% per annum. The group intends to extent the loan granted to Speak Global Ltd. This process has not yet been completed.

38. OTHER INCOME AND EXPENSES

	31.12.2006	31.12.2005
Interest expenses/(income)	9,575	69
General and administrative expenses	9,662	1,182
Currency exchange rate differences	(8,451)	8
Income tax charge	(4,994)	5,000
	5,792	6,259

39. DIRECTORS

The Company has a Management Board and a Supervisory Board. The remuneration of all board members paid through the Company and through interests in group companies is disclosed below.

The Supervisory Board members received a remuneration of:

	Base salary 2006	Bonus 2006	Share based payments	
H. Defforey	44	0	0.00	Appointed 16 October 2006
M. Fridman	39	0	0.00	Appointed 18 May 2006
A. Rogachev	200	0	0	
T. Franus	400	0	8,854	
D. A. Gould	55	0	0	Appointed 18 May 2006
A. Kosiyanenko	358	0	0	Appointed 18 May 2006
A. Savin	39	0	0	Appointed 18 May 2006
D. Noble	153	0	0	Resigned 2 November 2006
A. Girda	142	0	0	Resigned 18 May 2006
I. Vidiaev	373	0	25,819	Resigned 18 May 2006
N. Robinson	27	0	0	Appointed 18 May 2006
V. Ashurkov	14	0	0	Appointed 16 October 2006
	1,844	0	34,673	

The Management Board members received a remuneration of:

	Base salary 2006	Bonus 2006	Share based payments	
L. Khasis	515	3,188	0	Appointed 18 May 2006
V. Podolskiy	411	2,000	0	Appointed 18 May 2006
A. Gusev	167	1,100	0	Appointed 18 May 2006
P. B. Musial	218	800	0	Appointed 18 May 2006
O. Vysotsky	284	97	8,869	
A. Li	148	97	4,461	
W. G. Rieff	28	0	0	
	1,771	7,282	13,330	

There is a difference in the amounts disclosed in the company financial statements and the amounts disclosed in the consolidated financial statements which arises due to variations in the Board's composition and the time periods for which the remuneration applies.

40. STAFF NUMBERS AND EMPLOYMENT COSTS

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

41. CONTINGENT RIGHTS & LIABILITIES

Reference is made to the commitments and contingencies as dislosed in note 31 in the consolidated financial statements.

42. RELATED-PARTY TRANSACTIONS

Reference is made to the related party's transactions as disclosed in note 10 in the consolidated financial statements.

Amsterdam, 15 May 2007

Managing Directors:

L. Khasis

V. Podolskiy

O. Vysotsky

A. Li

A. Gusev

P. B. Musial

W. G. Rieff

Supervisory Directors:

H. Defforey

M. Fridman

A. Rogachev

A. Kosiyanenko

A. Savin

A. Ashurkov

D. A. Gould

T. Franus

OTHER INFORMATION

Auditor's report
The auditor's report is included on the next page.

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

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

Proposed appropriation of profit

USD thousand	2006
Loss for the year added to other reserves	5,392
	5,392

It will be proposed to transfer the loss to the other reserves.

AUDITOR'S REPORT

To the General Meeting of Shareholders of X5 Retail Group N.V.

Report on the financial statements

We have audited the financial statements of X5 Retail Group N.V., Amsterdam, for the year ended 31 December 2006 as set out on pages 49 to 105. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Executive Board Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Executive Board Report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 15 May 2007

PricewaterhouseCoopers Accountants N.V.

P. C. Dams RA

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