IMPORTANT NOTICE

You must read the following before continuing. The following applies to the offering memorandum following this page (the "**Offering Memorandum**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Company (as defined herein) in such jurisdiction. Recipients of this Offering Memorandum who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this Offering Memorandum.

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT IN THE UNITED STATES PURCHASING IN OFFSHORE TRANSACTIONS AS DEFINED IN, AND IN RELIANCE ON, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") AND OUTSIDE OF AUSTRALIA, CANADA, JAPAN AND THE REPUBLIC OF IRELAND. THE SECURITIES HAVE NOT BEEN, AND WILL NOT, BE REGISTERED UNDER THE SECURITIES ACT OR, THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY PERSON IN THE UNITED STATES OR ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be outside the United States. This Offering Memorandum is being sent at your request and by accepting the e-mail and accessing this Offering Memorandum, you shall be deemed to have represented to us and Renaissance Securities (Cyprus) Limited ("**Renaissance Capital**") that (1) you and any customers you represent are outside the United States, and that the electronic mail address that you have given to us and Renaissance Capital and to which this e-mail has been delivered is not located in the United States, and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

To the extent that the offer of the Shares (as defined herein) is made in any European Economic Area Member State (a "**Member State**") that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "**Prospectus Directive**") before the date of publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Member State in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that Member State in accordance with the Prospectus Directive), the offer (including any offer pursuant to this Offering Memorandum) is only addressed to qualified investors in that Member State within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require the Company to publish a prospectus pursuant to the Prospectus Directive.

This Offering Memorandum may only be communicated to persons in the United Kingdom who are: (i) investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within Article 49(2)(a) to (e) of the Financial Promotion Order; and (iii) persons to whom such communication may otherwise lawfully be made in accordance with the Financial Services and Markets Act 2000 or the Financial Promotion Order (collectively, "**relevant persons**"). Persons who are not relevant persons must not act or rely on this communication. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Company, the Selling Shareholder (as defined herein) or Renaissance Capital, any person who controls Renaissance Capital, any director, officer, employee or agent of Renaissance Capital or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version (if any) available to you on request from Renaissance Capital.

Open Joint Stock Company ROSINTER RESTAURANTS HOLDING

(An open joint-stock company incorporated under the laws of the Russian Federation)

Offering of 3,125,000 Ordinary Shares
Offering Price: US$32 per Ordinary Share

This offering memorandum (the "**Offering Memorandum**") relates to an offering (the "**Offering**") by RIG Restaurants Limited (the "**Selling Shareholder**") of 3,125,000 ordinary shares, each with a nominal value of RR169.7 per share (the "**Shares**"), of Open Joint Stock Company ROSINTER RESTAURANTS HOLDING ("**Rosinter**" or the "**Company**"), an open joint-stock company incorporated under the laws of the Russian Federation. The Offering is being made to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and outside of Australia, Canada, Japan and the Republic of Ireland.

Following completion of the Offering, the Company will offer to the Selling Shareholder by closed subscription (the "**Closed Subscription**") 2,030,457 newly issued ordinary shares of the Company (the "**New Shares**") at the price to be established by the Company's board of directors and equal to the Offering Price net of the portion of fees and expenses incurred in connection with the Offering and attributable to us.

AN INVESTMENT IN THE SHARES INVOLVES A HIGH DEGREE OF RISK. The Shares are of a specialist nature and should only be purchased and traded by investors who are particularly knowledgeable in investment matters. Potential investors should be prepared to bear the risk of a total loss of their investment. For a discussion of certain factors regarding our business and the Shares that should be considered by potential investors in making an investment decision, see "Risk Factors" beginning on page 6.

The Shares are admitted to trading on the Russian Trading System Stock Exchange (the "**RTS**") under the symbol „ROST". Prior to the Offering, there has not been any public market for the Shares. Trading in the Shares on the RTS will commence on or about 1 June 2007. The ISIN (International Security Identification Number) of the Shares is RU000A0JP922.

Each purchaser of the Shares must pay for such Shares in U.S. dollars or in Roubles on or before 14 June 2007. The Rouble equivalent of the Offering Price is determined on the basis of the exchange rate of the Central Bank of Russia (the "**CBR**") quoted one day prior to the relevant payment date. Delivery of the Shares will take place on or about 1 June 2007. In order to take delivery of the Shares, an investor should either have a direct account with the Company's share registrar, CJSC RDTs PARITET (the "**Registrar**"), or a deposit account with CJSC Depositary Clearing Company ("**DCC**") or any other depositary that has an account with DCC or a direct account with the Registrar. Investors may at their own expense choose to hold the Shares through a direct account with the Company's share registrar. However, directly held Shares are ineligible for trading on the RTS.

This Offering Memorandum is intended for use only in connection with an offer and sale of the Shares outside of the United States pursuant to Regulation S under the Securities Act. The Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority in any State of the United States and may not be offered or sold within the United States. The Shares are being sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S. Under the Securities Act, purchasers of the Shares may not offer, sell, pledge or otherwise transfer the Shares in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This Offering Memorandum is for information purposes only and is not a prospectus prepared or filed with any regulatory or other governmental authorities, nor with any stock exchange, in connection with the registration of the issuance, the offer or sale of the Shares.

For important information about this Offering Memorandum, see "Important Information about this Offering Memorandum."

Lead Manager and Sole Bookrunner

Renaissance Capital

The date of this Offering Memorandum is 1 June 2007.

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

Potential investors may only use this Offering Memorandum for the purpose of considering the purchase of the Shares outside the United States pursuant to an exemption from the registration requirements of the Securities Act. This Offering Memorandum is confidential and is furnished to potential investors for information purposes only and should not be passed to any other person. Potential investors may not reproduce, distribute or forward this Offering Memorandum, in whole or in part, and potential investors may not disclose any of the contents of this Offering Memorandum or use any information herein for any purpose other than considering an investment in the Shares. Each potential investor shall be deemed to agree to the foregoing by accepting delivery of this Offering Memorandum.

No prospective investor should consider any information in this Offering Memorandum to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountant and other advisers for such advice. Neither we, the Selling Shareholder nor the Lead Manager and Sole Bookrunner referred to on the cover of this Offering Memorandum (the "**Lead Manager**") makes any representation to any offeree or purchaser of the Shares regarding the legality of an investment in the Shares by such offeree or purchaser. The Lead Manager is acting exclusively for us and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protection afforded to their clients or for providing advice in relation to the Offering.

We and other sources identified herein have provided the information contained in this Offering Memorandum. We confirm that all the information contained in this Offering Memorandum is in all material respects true and accurate and not misleading and does not omit anything which could, in the context of the Offering, make any statements in the Offering Memorandum misleading in any material respect. We have included our own estimates, assessments, adjustments and judgments in preparing some market information, which have not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed exclusively to a third-party source, to a certain degree subjective. While we believe that our own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by us appropriately reflects the restaurant industry and the markets in which we operate, there is no assurance that our own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein. The contents of our website do not form any part of this Offering Memorandum.

We and the Selling Shareholder reserve the right, in our sole discretion, and for any reason whatsoever, to modify, amend and/or withdraw all or any part of the Offering and/or reject, in whole or in part, any prospective investment in the Shares or to allot to any prospective investor less than the number of Shares that such prospective investor desires to purchase. Neither we, the Selling Shareholder, nor the Lead Manager has any liability to any prospective investor if any of the foregoing occurs.

No person is authorised to give any information or to make any representation in connection with the Offering or sale of the Shares other than as contained in this Offering Memorandum, and, if given or made, such information or representation must not be relied upon as having been authorised by us, the Selling Shareholder or the Lead Manager, unless given or made by such person directly. We and the Selling Shareholder have furnished this Offering Memorandum solely for the purpose of enabling a prospective investor to consider the purchase of the Shares. No representation or warranty, express or implied, is made by the Lead Manager or any of its affiliates or advisors as to the accuracy or completeness of any information contained in this Offering Memorandum and they accept no responsibility therefor, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Lead Manager as to the past or the future. Any reproduction or distribution of this Offering Memorandum, in whole or in part, any disclosure of its contents, except to the extent that such contents are otherwise publicly available, and any use of any information herein for any purpose other than considering an investment in the Shares, is prohibited. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing.

The level of information disclosure in this Offering Memorandum is not intended to comply with disclosure requirements applicable to offerings in the United States, the United Kingdom, the Russian Federation or other jurisdictions by the relevant regulatory and/or listing authorities and, accordingly, neither we, the Selling Shareholder, the Lead Manager nor any of our or their respective officers, directors, employees, affiliates, representatives, advisers or agents accepts any responsibility for the compliance of this Offering Memorandum with the disclosure standards in jurisdictions where potential investors may be located.

We, the Selling Shareholder and the Lead Manager and its officers, directors, employees, affiliates, representatives, advisers or agents expressly disclaim, to the fullest extent permitted by law, any and all liability for representations, express or implied, whether contained in or omitted from this Offering Memorandum or any other written or oral communications with the recipient in relation to the evaluation of their proposed investment in the Shares and/or relating to or resulting from the use of such information and communications by any potential investors or any of their affiliates, advisers or representatives.

This Offering Memorandum does not constitute an offer, or a solicitation by or on behalf of us, the Selling Shareholder or the Lead Manager, to any person to subscribe for or purchase any of the Shares in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Memorandum and the offering or sale of the Shares in certain jurisdictions is restricted by law. Persons into whose possession this Offering Memorandum may come are required by us, the Selling Shareholder and the Lead Manager to inform themselves about and to observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. We, the Selling Shareholder and the Lead Manager have taken no action that would permit, otherwise than under the Offering, an offer of the Shares, or possession or distribution of this Offering Memorandum or any other offering material or application form relating to the Shares in any jurisdiction where action for that purpose is required. This Offering Memorandum may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Shares is set forth below and under "Plan of Distribution."

The information set forth in this Offering Memorandum is only accurate as of the date on the front cover of this Offering Memorandum. Our business and financial condition may have changed since that date. No obligation is accepted by us, the Selling Shareholder or the Lead Manager to provide any recipients of this Offering Memorandum with access to any additional information or to update this Offering Memorandum. In no circumstances will we, the Selling Shareholder or the Lead Manager be responsible for any costs, losses or expenses incurred by any recipient of this Offering Memorandum in connection with any due diligence conducted in respect of us and our subsidiaries or for any other costs or expenses incurred by the recipient in connection with the proposed acquisition of any of the Shares.

In making an investment decision, prospective investors must rely on their own examination of us and our subsidiaries (together, the "**Group**") and the terms of this Offering Memorandum, including the risks involved. If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or financial adviser. It should be remembered that the price of securities and the income from them can go down.

NOTICES TO CERTAIN INVESTORS

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area ("**EEA**") which has implemented the Prospectus Directive (2003/71/EC) (each, a "**Relevant Member State**") an offer to the public of any of the Shares which are the subject of the Offering contemplated by this Offering Memorandum may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any such Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43 million; and (3) an annual net turnover of more than EUR 50 million, as shown in its last annual or consolidated accounts;

(c) by the Lead Manager to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Shares shall result in the requirement for the publication by us, the Selling Shareholder or the Lead Manager of a prospectus pursuant to the Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any of the Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any of the Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

NOTICE TO INVESTORS IN FINLAND

This Offering Memorandum does not constitute a public offer or an advertisement of securities to the public in the Republic of Finland ("**Finland**"). The Shares will not and may not be offered, sold, advertised or otherwise marketed in Finland under circumstances that would constitute a public offering of securities under Finnish law. Any offer or sale of the Shares in Finland will be made pursuant to a private placement exemption as defined under Article 3(2) of the Prospectus Directive and the Finnish Securities Markets Act (1989/495, as amended) and any regulation made thereunder, as supplemented and amended from time to time. This Offering Memorandum has not been approved by or dispatched to the Finnish Financial Supervision Authority.

NOTICE TO INVESTORS IN FRANCE

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the Shares that has been approved by the *Autorité des marchés financiers* or by the competent authority of another Member State and notified to the *Autorité des marchés financiers*; no Shares have been offered or sold nor will be offered or sold, directly or indirectly, to the public in France; the prospectus or any other offering material relating to the Shares have not been distributed or caused to be distributed and will not be distributed or caused to be distributed to the public in France; such offers, sales and distributions have been and shall only be made in France to persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) but except for individuals, investing for their own account, as defined in Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French Code monétaire et financier. The direct or indirect distribution to the public in France of any so acquired Shares may be made only as provided by Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French Code monétaire et financier and applicable regulations thereunder.

NOTICE TO INVESTORS IN ITALY

The offering of the Shares has not been registered pursuant to Italian securities legislation and, accordingly, the Lead Manager has represented and agreed that, save as set out below, it has not offered or sold, and will not offer or sell, any Shares in Italy in a solicitation to the public and that sales of the

Shares in Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Accordingly, the Lead Manager has represented and agreed that it will not offer, sell or deliver any Shares or distribute copies of this Offering Memorandum and any other document relating to the Shares in Italy except:

(1) to "professional investors," as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998, as amended ("**Regulation No. 11522**"), pursuant to Article 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("**Decree No. 58**");

(2) that it may offer, sell or deliver Shares or distribute copies of any prospectus relating to such Shares in a solicitation to the public in the period commencing on the date of publication of such prospectus, provided that such prospectus has been approved in another Relevant Member State and notified to CONSOB, all in accordance with the Prospectus Directive, as implemented in Italy under Decree 58 and CONSOB Regulation No. 11971 of 14 May 1999, as amended ("**Regulation No. 11971**"), and ending on the date which is 12 months after the date of publication of such prospectus; and

(3) in any other circumstances where an express exemption from compliance with the solicitation restrictions applies, as provided under Decree No. 58 or Regulation No. 11971.

Any such offer, sale or delivery of the Shares or distribution of copies of the Offering Memorandum or any other document relating to the Shares in Italy must be:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended, Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations; and

(b) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Investors should also note that, in any subsequent distribution of the Shares in Italy, Article 100-*bis* of Decree No. 58 may require compliance with the law relating to public offers of securities. Furthermore, where the Shares are placed solely with professional investors and are then systematically resold on the secondary market at any time in the 12 months following such placing, purchasers of Shares who are acting outside of the course of their business or profession may in certain circumstances be entitled to declare such purchase void and, in addition, to claim damages from any authorised person at whose premises the Shares were purchased, unless an exemption provided for under Decree No. 58 applies.

NOTICE TO INVESTORS IN SWEDEN

This Offering Memorandum has not, and will not be registered with the Swedish financial supervisory authority. Accordingly, this Offering Memorandum may not be made available, nor may the Shares otherwise be marketed and offered for sale, in Sweden other than in circumstances which are deemed not to be an offer to the public in Sweden under the Financial Instruments Trading Act (1991:980).

NOTICE TO INVESTORS IN SWITZERLAND

The Shares may not and will not be publicly offered, distributed or re-distributed in the Swiss Confederation ("**Switzerland**"), and neither this Offering Memorandum nor any other solicitation for investments in the Shares may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Article 652a of the Swiss Code of Obligations. This Offering Memorandum may not be copied, reproduced, distributed or passed on to others without the Lead Manager's prior written consent. This Offering Memorandum is not a prospectus within the meaning of Article 652a of the Swiss Code of Obligations and may not comply with the information standards required thereunder. We will not apply for a listing of the Shares on any Swiss stock exchange or other Swiss regulated market, and this Offering Memorandum may not comply with the information required under the relevant listing rules.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

The Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the sale of the Shares in circumstances in which section 21(1) of the FSMA does not apply; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Shares in, from or otherwise involving the United Kingdom.

NOTICE TO INVESTORS IN THE UNITED STATES

The Shares have not been, and will not be, registered under the Securities Act or the securities act of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the Securities Act and any applicable state securities laws. The Shares are being offered and sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S. In addition, until 40 days after commencement of the Offering, an offer or sale of the Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "**SEC**") OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO UNITED ARAB EMIRATES RESIDENTS

The Lead Manager has represented and agreed that the Shares have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates or the Dubai International Financial Centre other than in compliance with laws applicable in the United Arab Emirates or the Dubai International Financial Centre, as the case may be, governing the issue, offering and sale of shares. Furthermore, the information contained in this Offering Memorandum does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise, and is not intended to be a public offer and is addressed only to persons who are sophisticated investors. Further, the information contained in this Offering Memorandum is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

NOTICE TO INVESTORS IN OTHER RESTRICTED JURISDICTIONS

The Shares will not be offered or sold in or to any resident of, and no offer to buy the Shares will be solicited in or from any resident of, Australia, Canada, Japan or the Republic of Ireland in connection with the Offering, and neither this Offering Memorandum nor any confirmation of sale shall be delivered to any address in any such country.

FORWARD-LOOKING STATEMENTS

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

- those discussed in "Risk Factors," "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Offering Memorandum; and
- our ability to implement and finance our expansion programme in our current and, potentially, new markets.

These forward-looking statements speak only as at the date of this Offering Memorandum. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are an open joint stock company organised under the laws of the Russian Federation. The majority of our directors and executive officers reside in the Russian Federation. Moreover, most of our assets are located in the Russian Federation. As a result, you may not be able to effect service of process within your jurisdiction on any of such persons, or to enforce within your jurisdiction a judgment obtained against us or such persons in the courts of your jurisdiction and predicated upon the laws of your jurisdiction.

Judgments rendered by a court in any jurisdiction outside the Russian Federation may not be enforced by courts in Russia unless (i) there is an international treaty in effect providing for the recognition and enforcement of judgments in civil cases between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. There is no treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom and the Russian Federation. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above may significantly delay the enforcement of such judgment, or completely deprive the plaintiff of effective legal recourse.

The Russian Federation is party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural legislation).

Moreover, it may be difficult to enforce foreign judgments or arbitral awards in the Russian Federation due to the inexperience of the Russian courts in international commercial transactions, official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors and the inability of Russian courts to enforce such awards. The arbitrazh procedural code of the Russian Federation (the "**Arbitrazh Procedural Code**") establishes the list of grounds for Russian courts to refuse recognition and enforcement of any foreign arbitral awards. The Arbitrazh Procedural Code and other Russian procedural legislation are subject to further changes; therefore, among other things, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may be met with resistance or a lack of understanding by Russian courts or other officials, thereby causing delay and unpredictability in the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Memorandum, the terms "**we**," "**us**" and "**our**" refer to the Company and/or the Group, as the context requires, except that references and matters relating to the shares and share capital of the Company or matters of corporate governance of the Company shall refer only to the Shares, share capital and corporate governance of Open Joint Stock Company ROSINTER RESTAURANTS HOLDING. The term the "**Group**" refers to us and, as the context requires, the companies we control or which are otherwise included in our audited combined and consolidated financial statements.

The Group's audited consolidated financial statements as of and for the financial years ended 31 December 2006 and 2005 included in this Offering Memorandum (the "**Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and audited by Ernst & Young LLC, our independent auditors, having their registered address at Sadovnicheskaya Naberezhnaya 77/1, Moscow 115035, Russian Federation.

This Offering Memorandum contains non-IFRS measures and ratios, including EBITDA. We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our operating performance and believe EBITDA measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Each of EBITDA and Adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations are: (i) EBITDA measures do not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance, (ii) EBITDA measures do not reflect the impact of income taxes on our operating performance and (iii) EBITDA measures do not reflect the impact of depreciation and amortisation on our operating performance. The assets of our business that are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from our EBITDA measures they do not reflect our future cash requirements for these replacements. In addition, other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our IFRS operating results and using EBITDA measures only supplementally. EBITDA measures are measures of our operating performance that are not required by, or presented in accordance with, IFRS. EBITDA measures are not measurements of our operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business.

Market data used in this Offering Memorandum under the captions "Summary," "Risk Factors," "Restaurant Industry in Russia, the CIS and Central Europe (and the Baltics)" and "Business" have been extracted from official and industry sources and other sources we believe to be reliable. Throughout this Offering Memorandum, we have also set forth certain statistics, including statistics in respect of casual dining chain sales volumes and market share, from industry sources and other sources that we believe are reliable. Such information, data and statistics have been accurately reproduced and, as far as we are aware and able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics materially inaccurate or misleading.

Certain Jurisdictions

In this Offering Memorandum references to, unless otherwise specified:

- "**CIS**" are to the Commonwealth of Independent States and its member states, except Russia, as of the date of this Offering Memorandum: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- "**Central Europe (and the Baltics**)" are to Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Former Yugoslav Republic of Macedonia ("**FYROM**"), Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia;
- "**Moscow**" are to Moscow and its surrounding region (*i.e.*, the Moscow "oblast", which is an administrative region); and
- "**Russian regions**" are to Russia, except Moscow.

Certain Currencies

In this Offering Memorandum all references to:

- "**RR**" and "**Rouble**" are to the currency of Russia;
- "**€**" and "**Euro**" are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; and
- "**US$**" and "**U.S. dollar**" are to the currency of the United States of America.

Exchange Rates

Our functional currency is the Rouble as it reflects the economic substance of our underlying business. This Offering Memorandum contains translations of certain amounts into U.S. dollars at specified rates solely for the purpose of presentation. These translations should not be construed as representations that the amounts actually represent such equivalent U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rate indicated as of the dates mentioned herein or at all.

The table below shows the high, low, average and period end exchange rates between the Rouble and the U.S. dollar, as published by the CBR and expressed as the number of Roubles per US$1.00. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this Offering Memorandum. The average is computed using the exchange rate on the last business day of each month during the period indicated.

Year Ended 31 December	High	Low	Average	Period End
2004	29.45	27.75	28.81	27.75
2005	28.99	27.46	28.28	28.78
2006	28.48	26.18	27.19	26.33

The table below shows the high and low Rouble-dollar exchange rates, as published by the CBR and expressed as the number of Roubles per US$1.00, for each month during the four months prior to the date of this Offering Memorandum.

Year 2007	High	Low	Average	Period End
January	26.58	26.45	26.53	26.53
February	26.55	26.16	26.34	26.16
March	26.24	25.97	26.11	26.01
April	26.01	25.72	25.87	25.78

Rounding

Certain figures included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. In addition, figures expressed as percentages may not total 100% when aggregated.

TABLE OF CONTENTS

SUMMARY

This summary presents certain information contained elsewhere in this Offering Memorandum and is qualified in its entirety by and should be read in conjunction with the more detailed information about us, including the sections entitled "Risk Factors" and "Business" and our Financial Statements and the accompanying notes thereto, appearing elsewhere in this Offering Memorandum. No civil liability will attach to the Company or the Selling Shareholder solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Memorandum.

Operating 192 restaurants, featuring some of the most recognised brands in Russia and benefiting from experienced management, Rosinter Restaurants Holding is the leading casual dining operator in Russia and the CIS. According to a research report by In-Depth prepared for us, as of 31 December 2006, we had the largest market share by number of restaurants and revenue of all casual dining operators in Moscow.

From 15 restaurants as of 31 December 1996, when we opened our first casual dining regional restaurant, we have grown to 192 restaurants located in 23 cities in Russia, the CIS and Central Europe (and the Baltics). We own most of our restaurants (154 restaurants), but we also enter into franchise arrangements (with 38 restaurants operated by 13 franchisees (all restaurant figures in this "Summary" section as of 1 May 2007 unless otherwise specified). In 2006, we served approximately 12.5 million guests, on average more than 34,000 guests each day. Our revenue for the year ended 31 December 2006 was US$218,626 thousand compared to US$165,712 thousand for the year ended 31 December 2005. At 2006 year-end we had approximately 7,500 employees.

We have restaurant concepts covering each of the four most popular cuisines in Russia and the CIS: Italian, Japanese, American and Russian. Our IL Patio and Planet Sushi brands, which we established, developed and promoted, are the second and third most-recognised casual dining brands in Moscow according to a report prepared for us by In-Depth in 2006. Our IL Patio restaurants (67 restaurants) feature Italian cuisine in a casual contemporary setting while our Planet Sushi restaurants (60 restaurants) offer Japanese cuisine in a soothing Asian atmosphere. Under an exclusive franchise arrangement, we operate 17 T.G.I. Friday's® restaurants in Moscow, Omsk, Minsk, Kiev, Riga, Prague and Budapest. Across six cities in Siberia and the Urals region, we operate 13 Sibirskaya Corona (Siberian Crown) beer restaurants serving Russian cuisine under a licence agreement with Sun InBev, which owns the Sibirskaya Corona trademark. In December 2005, we successfully launched a new restaurant concept: 1-2-3 Café, providing traditional Russian food in a contemporary atmosphere. We also have operations in the Czech Republic, Hungary, Latvia, Belarus, Ukraine and Kazakhstan, operate other restaurant brands including Moka Loka and American Bar and Grill and own two fine dining restaurants in Moscow (Santa Fe and Café des Artistes).

Our founder, Rostislav Ordovsky-Tanaevsky Blanco, started our business in 1990 and remains our principal beneficial shareholder and chairman of our board of directors. Our CEO, Lori Daytner, first joined us in 1992 and assumed her current position in September 2006.

Our strategy is to continue to expand by both corporate development and franchising, while maintaining the level of good, mid-priced food and efficient, friendly service that our customers have come to expect. We vigilantly maintain quality control at all our restaurants so as to maintain our reputation for good food served in a pleasant, clean environment. We believe that this commitment, supported by marketing activities that are comparable to other leading international casual dining companies (as percentage of revenue), has built our brands and will help fuel our future growth. Our expansion is targeted to meet the demand of the burgeoning middle-class in Russia, particularly through corporate and franchise restaurants in Moscow, through corporate restaurants in cities in Russia and the CIS with more than 500,000 inhabitants, through franchise restaurants in cities with more than 350,000 inhabitants and through both corporate and franchise restaurants in Central Europe (and the Baltics). We plan to increase the number of locations using our established restaurant concepts via corporate development and active franchising and to pursue differing formats for our existing brands, in particular in locations at or near transportation infrastructure, such as airports and train stations, and at or near shopping malls and office complexes. Drawing on our past experience, we believe we have particular skill in identifying good locations for new restaurants: good location is generally one of the most important elements of a restaurant's success. We may also pursue growth through acquisitions of comparable businesses.

Competitive Strengths

We believe that the following strengths have contributed to our success and will continue to be competitive advantages for us, supporting our strategy and contributing to improvements in our financial performance:

- Leading casual dining business in Russia and the CIS;
- Well positioned in high-growth markets;
- Established regional platform for further growth;
- Scalable business model;
- Leading portfolio of brands and ability to develop new leading brands;
- Operating efficiencies brought by multiple brand portfolio business model and scale of operations; and
- Experienced and professional management team and international standards of operations.

Business Strategy

Our long-term objective is to strengthen our position as the leading casual dining operator in Russia and the CIS. To promote that objective, we strive to anticipate and satisfy the needs of our customers — in particular, the burgeoning middle-class population in Russia and the CIS — and otherwise to implement measures to grow our revenue and maximise our profits over the long-term. The five key components to our business strategy are:

- Increasing market penetration of our core brand restaurants — IL Patio, Planet Sushi, T.G.I. Friday's®, 1-2-3 Café and Sibirskaya Corona (the "**Core Brands**") — in existing markets while also selectively expanding into new markets;
- Growing our new brands and developing new restaurant formats that leverage our existing brands in the casual dining sector, taking into account new business opportunities arising from the modernisation of transport facilities in Russia and the CIS and the development of shopping and entertainment centres and office complexes;
- Strengthening customer loyalty and brand awareness;
- Continuing to improve profitability and operational efficiency through cost management, combined-restaurant locations, franchising and good labour practices; and
- Expanding through opportunistic, site-driven acquisitions of restaurant networks.

For a more detailed description of our competitive strengths and business strategy, please see the sections entitled "Business — Competitive Strengths" and "Business — Business Strategy".

THE OFFERING

Company	Open Joint Stock Company ROSINTER RESTAURANTS HOLDING (organised under the laws of the Russian Federation).
Selling Shareholder	RIG Restaurants Limited (organised under the laws of the Republic of Cyprus).
Offering	The Offering comprises 3,125,000 Shares to be sold by the Selling Shareholder to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside the United States in reliance on Regulation S under the Securities Act and outside Australia, Canada, Japan and the Republic of Ireland.
Closed Subscription	Following completion of the Offering, the Company will offer to the Selling Shareholder by the Closed Subscription 2,030,457 New Shares. The Selling Shareholder currently owns 100% of our issued share capital. After completion of the Offering and the Closed Subscription, the Selling Shareholder will own 74.024% of our issued share capital.
Offering Price	US$32 per Share.
Closed Subscription Price	US$29.55 per Share.
Lock-up	The Company and the Selling Shareholder will not, for a period of 180 days after 14 June 2007, without the prior written consent of the Lead Manager, such consent not to be unreasonably withheld or delayed, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any shares of the Company or securities convertible or exchangeable into or exercisable for any shares of the Company or warrants or other rights to purchase shares of the Company or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying Shares, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such Shares except pursuant to the transactions contemplated by the Closed Subscription.
Use of Proceeds	All the net proceeds from the Offering will be received by the Selling Shareholder. The Selling Shareholder will use a portion of the proceeds from the Offering to subscribe for the New Shares in the Closed Subscription. We will use the proceeds derived from the Closed Subscription primarily to construct new restaurants in the remainder of 2007 and in 2008 in Russia, the CIS and Central Europe (and the Baltics); optimise our leverage profile; strengthen our existing network in order to support expansion; pursue potential acquisitions; and fund the buy-out of all or part of the shares in our subsidiaries owned by some of our partners. See "Use of Proceeds."

Voting Rights	The Shares are subject to applicable provisions of Russian corporate law and our corporate charter (the "**Charter**"). See "Description of Share Capital and Certain Requirements of Russian Legislation."
Dividend Policy	We have not paid any dividends in the past. For the foreseeable future, we do not expect to declare and pay any dividends but will reinvest our net profit to fund our future growth. See "Dividend Policy."
Share Capital	At the date of this Offering Memorandum, our authorised and issued share capital consists of 10,000,000 ordinary shares with a nominal value of RR 169.7 per share. According to the Charter, we have 10,000,000 additional authorised shares, a portion of which will be issued in the form of the New Shares. Following the Closed Subscription our authorised and issued share capital will consist of 12,030,457 ordinary shares.
Market for the Shares	The Shares are admitted to trading on the RTS under the symbol „ROST". Prior to the Offering, there has not been any public market for the Shares. Trading in the Shares on the RTS will commence on or about 1 June 2007. The ISIN of the Shares is RU000A0JP922.
Settlement and Delivery	Each purchaser of the Shares must pay for such Shares in U.S. dollars or Roubles on or before 14 June 2007. The Rouble equivalent of the Offering Price is determined on the basis of the exchange rate of the CBR quoted one day prior to the relevant payment date. Delivery of the Shares will take place on or about 1 June 2007. In order to take delivery of the Shares, an investor should either have a direct account with the Registrar or a deposit account with DCC or any other depositary that has an account with DCC or a direct account with the Registrar. Investors may at their own expense choose to hold the Shares through a direct account with the Registrar. However, directly held Shares are ineligible for trading on the RTS.
Management and Related Interests	As of the date hereof, (i) Mr. Rostislav Ordovsky-Tanaevsky Blanco, our founder and the chairman of our board of directors, beneficially owns 85.835% of our issued share capital, (ii) Mr. Vladimir Mekhrishvili, a member of our board of directors, beneficially owns 1.096% of our issued share capital, and (iii) Ms. Lori Ann Daytner, the president and the chairman of our management board, beneficially owns 0.367% of our issued share capital. After completion of the Offering, the Closed Subscription and the Shareholder Transfers referred to therein, Mr. Rostislav Ordovsky-Tanaevsky Blanco will beneficially own 61,292% of our issued share capital.
Risk Factors	The Shares are specialised investments and should only be purchased and traded by investors who are particularly knowledgeable in investment matters. Prospective investors should consider the risks described in "Risk Factors" prior to making an investment decision.

SUMMARY CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

The following summary consolidated historical financial information for the Group has been extracted (other than EBITDA and Adjusted EBITDA) without material adjustment from the Financial Statements and must be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements (including the notes thereto) included elsewhere in this Offering Memorandum.

	As at and for the year ended 31 December	
	2006	**2005**
	(thousands of U.S. dollars, unless specified otherwise)	
Consolidated income statement data		
Revenue	**218,626**	**165,712**
Cost of sales	(137,901)	(106,607)
Gross profit/(loss)	**80,725**	**59,105**
Selling, general and administrative expenses	(62,734)	(49,239)
Foreign exchange gains/(losses), net	672	(644)
Other income/(expenses), net	(6,089)	(591)
Profit/(loss) from operating activities	**12,574**	**8,631**
Interest income	705	1,086
Interest expense	(12,152)	(9,238)
Profit/(loss) before income tax	**1,127**	**479**
Income tax (expense)/benefit	(348)	120
Net profit for the year	**779**	**599**
Earning per share attributable to equity holders of the parent entity, U.S. dollars	**0.08**	**0.06**
Consolidated balance sheet data		
Non-current assets	75,576	61,319
Current assets	24,258	35,097
Total assets	**99,834**	**96,416**
Total equity (deficit)	(23,848)	(22,715)
Non-current liabilities	57,960	58,014
Current liabilities	65,722	61,117
Total equity and liabilities	**99,834**	**96,416**
Consolidated statement of cash flows data		
Net cash flows from operating activities	23,962	23,558
Net cash flows used in investing activities	(15,662)	(12,531)
Net cash flows used in financing activities	(5,516)	(10,510)
Increase/(Decrease) in cash and cash equivalents at end of period as compared to beginning of period	**2,910**	**630**
EBITDA[(1)]	**20,727**	**16,905**
Adjusted EBITDA[(1)]	**26,816**	**17,496**

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations," below, for a discussion of EBITDA and Adjusted EBITDA.

RISK FACTORS

An investment in the Shares involves a high degree of risk. Prospective investors should carefully consider all of the information set forth in this Offering Memorandum, particularly the risks described below, before making a decision to invest in the Shares. Any of the following risks, individually or together, could adversely affect our business, financial condition, results of operations or prospects, which could result in a decline in the value of the Shares and the loss of all or part of an investment in the Shares. While we have described the risks and uncertainties that our management believes are material, these risks and uncertainties may not be the only risks and uncertainties we face. Additional risks and uncertainties, including those we currently are not aware of or deem immaterial, may also have any or all of the effects set forth above.

Risks Relating to Our Business and Industry

General and industry-specific economic fluctuations could adversely affect our business, financial condition and results of operations

Our business, financial condition and results of operations depend on a variety of general economic and industry-specific factors. The casual dining sector of the restaurant industry is highly fragmented and competitive and is affected by changes in national, regional and local economic conditions and changing demographic trends. Furthermore, in periods of economic uncertainty, consumers tend to decrease their discretionary, restaurant spending. While we have benefited from the sustained economic growth in Russia and the CIS since 2000, any economic downturn in Russia and the CIS (nationally or in the particular cities in which we operate) may materially adversely affect our business. The performance of individual restaurants may also be adversely affected by factors such as changing traffic patterns and the establishment of nearby competing restaurants. In response to such developments, we may need to increase our marketing efforts, adjust our pricing or take other actions, which may adversely affect our results of operations. These factors are generally beyond our control, and our ability to manage the risks they present is important to our operations. Reduced customer traffic in our restaurants for any reason, increased costs of doing business or reduced prices for our products as a result of these or other considerations could adversely affect our business, financial condition and results of operations.

Changes in consumer preferences that are largely beyond our control could adversely affect our business, financial condition and results of operations

Our business is particularly sensitive to changing consumer preferences, including changes in consumer tastes and dining habits and consumer acceptance of our restaurant concepts, all of which may be caused by many factors that are generally beyond our control. For example, our Planet Sushi restaurants in Russia and the CIS have benefited from a consumer appetite for sushi and other Japanese cuisine, but that consumer preference may change. Health, dietary and other considerations may also result in changes to consumer preferences, which may in turn result in reduced demand for our products. The demand for our products or our costs of doing business may also be adversely affected by public concern about nutrition, food safety and other factors, such as the use of genetically modified products. Although we request that our suppliers do not provide genetically modified products and we review our suppliers and the products they provide to ensure their compliance, there is no assurance that our efforts will be successful. Some or all of our restaurant concepts may become less attractive in light of changing consumer preferences, and we may be unable to adapt to such changes in a timely manner or such changes to our restaurant concepts may be unsuccessful. Any change in customer preferences that decreases demand for our products or the acceptance of our restaurant concepts could adversely affect our business, financial condition and results of operations.

We face strong competition in our business

The casual dining sector of the restaurant industry is subject to growing competition in the markets in which we compete. A growing, under-served market, such as Russia, is particularly attractive to new entrants, who may also offer new cuisines that appeal to consumer tastes. New entrants may include global casual dining restaurant businesses which benefit from global brand recognition and have significant experience in opening new markets and significant management, marketing and financial resources. We may also face competition from existing, experienced casual dining businesses willing to accept low margins on investment in order to enter new markets as well as from business conglomerates willing to cross-subsidise a new casual dining business in order to enter new markets. A significant increase in competition, whether from one new competitor or many, could adversely affect our business, financial condition and results of operations.

Our inability to identify, open and operate new restaurant locations profitably may adversely affect our business

Identifying and securing the best restaurant locations is essential to our business. Good location is generally one of the most important elements for restaurant success. Our business development strategy depends in part on our ability to assess locations and successfully open restaurants in new and existing markets. Desirable locations may be limited for many reasons, including the general lack of prime real estate in the markets in which we compete and restrictions in some of these markets on the use of certain locations for restaurants. As a result, desirable locations for new restaurants or for the relocation of existing restaurants may not be available at an acceptable cost or on acceptable terms. We may experience delays in opening new restaurants or higher-than-anticipated costs in opening new restaurants or in obtaining any required governmental approvals for such new locations. In addition, we may not correctly identify prime locations that can support the restaurants we open.

We depend in large part on our ability to operate new restaurants on a profitable basis. A new restaurant generally takes approximately twelve months from its opening to acquire a stable customer base, reach planned revenue and achieve the planned level of profitability. We cannot guarantee that new restaurants will be operated profitably in the short-term or at all. Furthermore, we cannot guarantee that any new restaurant we open will obtain operating results similar to those of our existing restaurants. Our inability to successfully open and profitably operate restaurants in new and existing markets could adversely affect our business, financial condition and results of operations.

We face risks associated with the expansion of our business in Russian regional cities, elsewhere in the CIS and Central Europe (and the Baltics)

We currently plan to expand our operations into further Russian regional cities as well as cities in the CIS and Central Europe (and the Baltics) in which we have not previously operated. These cities will be new operating environments for us, located, in some instances, a great distance from our Moscow headquarters. Although we seek to supervise these operations by use of our management teams in certain designated hub cities in which we operate ("**Hub Cities**") that are relatively nearby, we may have less control over their activities and these businesses may face more uncertainties with respect to their operational needs. We may face challenges when entering new markets such as identifying and hiring experienced personnel and selecting and securing the best restaurant locations in light of the local real estate market. We may face problems in establishing a reliable supply chain, particularly with respect to Russian regional cities and elsewhere in the CIS, where suppliers may be available only at higher-than-anticipated costs, if at all. In addition, we may face additional challenges due to the unfamiliarity of local consumers in the new markets with our brands and, in some cases, our cuisines. New markets may also have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets.

To help mitigate these risks, we have previously, and may again in the future, attempted to identify suitable partners for regional partnerships in order to benefit from their local knowledge of demographic and economic patterns, for location identification and development and for other insights into their local market. However, we may not be able to identify suitable partners or may fail to work with such partners successfully. Furthermore, there can be no assurance that their assistance will allow us to avoid the risks inherent in expansion beyond our existing markets.

With respect to expansion in the CIS and Central Europe (and the Baltics), these countries are emerging markets subject to greater political, economic, social and legal risks than more developed countries. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, including those risks set out below under "Risks Relating to the Russian Federation — Political and Social Risks," "— Economic Risks" and "— Legislative and Legal Risks." Any of the above factors could adversely affect our business, financial condition and results of operations.

As of 31 December 2006, we have a working capital deficit of US$41,464 thousand and negative shareholder equity of US$23,848 thousand

We have a working capital deficiency and negative shareholder's equity, which indicate the existence of a material uncertainty that may cast significant doubt about our ability to continue as a going concern. See the Independent Auditors Report and Note 2 to the Financial Statements. Our deficit of shareholder's equity was US$23,848 thousand as of 31 December 2006. For explanation of the shareholder's equity deficit, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting the Presentation of the Group's Financial Results in the Financial Statements — Deficit on equity." We expect to have positive shareholder's equity as a result of the Offering, but there can be no assurance that the Offering will be successful. Our current liabilities as of 31 December exceeded our current assets by US$41,464 thousand. For an explanation of the negative working capital position and the initiatives we have undertaken, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain factors affecting the presentation of the Group's financial results in the Financial Statements — Net current liability." We have also undertaken several initiatives to improve our financial performance and liquidity, but there can be no assurance that such measures will prove successful. If such measures are not successful, we may not be able to fund our expansion strategy or meet our debt obligations, which could adversely affect our business, financial condition or results of operations, or we may have to limit or terminate our operations.

Our ability to raise capital for our future growth and expansion may be limited

Changes in our operating plans, acceleration of our expansion plans, lower-than-anticipated sales, increased expenses or other events, including those described in this section, may cause us to seek additional financing on an accelerated basis. Financing may not be available on commercially acceptable terms, or at all. Furthermore, some of our facility agreements require us to seek the lenders' prior consent in order to incur additional indebtedness above certain thresholds. Additional financing, if available, may involve significant cash payment obligations and covenants and/or financial ratios that restrict our operational flexibility. Any failure to obtain financing in a timely manner or on commercially acceptable terms could adversely affect our business, financial condition and results of operations.

We may seek to make acquisitions, which we may not be able to complete or integrate successfully

We evaluate potential acquisition targets from time to time, and we may in the future seek to acquire businesses and assets in order to expand our operations and brand portfolio or to enter new markets. The completion of acquisitions and, if completed, the successful integration of such newly acquired businesses into our operations may be difficult for a variety of reasons, including differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, potential future acquisitions pose significant risks to our existing operations, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business, requiring greater personnel and other resources;
- additional cash expenditures to integrate acquisitions;
- incurrence of additional debt to finance acquisitions and higher debt service costs related thereto; and
- the need to attract and retain sufficient numbers of qualified management and other personnel.

Moreover, when making acquisitions it may not be possible for us to conduct a detailed investigation of the nature of the assets being acquired due to, for example, time constraints in making acquisition decisions and other factors. We may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition. Moreover, even if we are successful in integrating newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialise, resulting in lower-than-expected benefits from such acquisitions.

We lease premises for most of our restaurants and our inability to secure our lease rights and maintain our existing restaurant locations may adversely affect our business

We lease premises for almost all our restaurants. We generally enter into long-term lease agreements, and our lease agreements often provide for our right of renewal of the lease agreements upon expiration, provided that we remain in compliance with the terms of the lease. However, approximately 46% of our lease agreements are concluded for less than one year or for an indefinite period (which means that any party may terminate such lease agreement by a three months prior notice); in some cases there is only an informal expectation that our short-term leases will be renewed on an ongoing basis. Real estate costs have escalated significantly in Moscow in recent years and are also increasing in Russian regional cities. There is no guarantee that we will be able to renew our leases or conclude new agreements on commercially acceptable terms. The loss of restaurant locations could have an adverse effect on our business, financial condition and results of operations.

In addition, in certain cases, our current locations may become less attractive or may be affected by other factors potentially resulting in reduced sales in those locations. Due to these reasons, we may wish to close a restaurant but may be unable to terminate the respective lease agreement cost-effectively. Any of the preceding restrictions on our ability to close underperforming restaurants could also adversely affect our business, financial condition and results of operations.

We make significant capital improvements to our leased premises, the cost of which we may be unable to recoup

In many cases, we must make significant, physically-fixed capital improvements to our leased facilities. In particular, consistent electricity supply is often a critical issue in selecting new locations or evaluating existing locations. We may invest in additional power supply infrastructure at our locations or other significant, physically-fixed capital improvements, but any such investments generally become the property of the landlord after the expiration of the lease. As such, we may be unable to recoup investments we make in upgrading our locations at the termination of a lease, such as investments in power supply infrastructure. The loss of such investments, particularly if such losses occurred at a number of our leased locations, may have an adverse effect on our business, financial condition and results of operations.

Logistical problems in our supply chain or increases in costs could result in a loss of revenue and adversely impact our business, financial condition and results of operations

Our profitability depends in part on our ability to anticipate and react to changes in the cost of our supplies. Although we believe we have a diverse set of suppliers and could substitute any single supplier if need be, a failure by a supplier to perform its obligations could cause significant short-term disruption in our supply chain, which could adversely affect our business, financial condition and results of operations.

We are dependent on frequent deliveries of fresh produce, and therefore, are subject to the risk that shortages or interruptions in supply, caused by factors such as adverse weather conditions, unanticipated demand, changes in governmental regulation and recalls of food products, could adversely affect the availability, quality and cost of ingredients. Increases in the cost of important products could significantly increase our restaurant expenses. We cannot, however, predict whether we will be able in all circumstances to anticipate and react to changing costs by adjusting our purchasing practices and menu prices, and a failure to do so could adversely affect our business, financial condition and results of operations. In addition, because we operate in price sensitive markets, we would likely be unable to fully pass on price increases to our customers. Any interruption in our supplies or increases in the cost of important products for any reason including those above could adversely affect our business, financial condition and results of operations.

Food-borne illnesses and resulting negative customer perceptions could adversely affect our business, financial condition and results of operations

Although we exercise careful safety and quality control, we cannot guarantee that our internal controls and procedures will be so safe as to prevent even a single case of food-borne illness. Furthermore, we rely on third-party food processors, and, although we monitor them, such reliance may increase the risk that food-borne illnesses may affect one or many of our locations supplied by such producers. In recent years, many casual dining chains have been affected by incidents of food-borne illnesses that have had a material adverse impact on their operations. Incidents of food-borne illnesses affecting our customers may result in litigation, negative publicity, increased costs of doing business and decreased demand at one or all of our restaurants, even if the illnesses are incorrectly attributed to our restaurants. In addition, nutritional, health and other scientific inquiries and studies, which can affect consumer perceptions and dining preferences, could adversely affect our business, financial condition and results of operations. Such incidents at other restaurants within the casual dining sector could adversely affect our business, financial condition and results of operations, even if our restaurants are not directly affected.

Outbreaks of disease affecting our supply chain could adversely affect our business, financial condition and results of operations

Outbreaks of disease affecting our supplies of beef, pork, poultry and fish products could significantly affect our ability to purchase such commodities, our operations and our costs of doing business. Among the diseases that could affect our supplies are highly contagious diseases that may spread rapidly through countries and regions. Even in countries with high veterinary standards, pigs sometimes contract foot and mouth disease and cattle "mad cow disease" (bovine spongiform encephalopathy).

In addition, avian influenza is a highly contagious viral disease that affects poultry and that has since 2005 spread rapidly from Asia into Europe and Africa. Poultry in the affected regions in Russia has been placed under quarantine by orders of the respective regional administrative bodies. We select poultry suppliers who monitor their supply for the presence of avian influenza and other diseases and provide us with certificates based on laboratory examinations in compliance with applicable sanitary and veterinary standards. We also perform independent tests when there is a high risk of infection in the regions in which our suppliers operate, when we change providers (or our providers change production facilities) or in case of any customer complaints. Although avian influenza has not been detected in the production facilities of any of our suppliers, there can be no guarantee that it will not affect our suppliers in the future, and there can be no assurance that avian influenza will not spread to other regions of Russia, including the regions in which our suppliers' production facilities are located. While the incidence of avian influenza in Europe has largely been limited to wild fowl and household poultry with only limited occurrences in commercial poultry, there can be no assurance that it will not spread further among commercial flocks in Russia or elsewhere. Furthermore, we heat our poultry supplies to a temperature of not less than 75 degrees Celsius, whereas the World Health Organization has reported that the virus responsible for avian influenza is destroyed at a temperature of 70 degrees Celsius. Although only approximately 5% of our menu items contain poultry and we believe our supply of chicken could be largely replaced with chicken from other sources or by substituting other poultry in our menu items that use chicken, if our third-party suppliers' poultry populations were to be infected, we may not be able to locate additional suppliers of poultry products or may be able to obtain poultry only at greatly increased prices that could adversely affect our results of operations.

Any outbreak of disease affecting our supply chain, or even one that does not affect our suppliers, may also create adverse publicity regarding our products, resulting in declining demand. Because we depend on third-party suppliers for these commodities, the risk of purchasing affected products is largely beyond our control. As a result of these and other factors, any outbreak of disease, or the possibility of an outbreak of disease, affecting our supply chain could adversely affect our business, financial condition and results of operations.

Our use of imported foodstuffs and equipment exposes us to the risk of the imposition or increase of tariffs, duties, quotas and other limitations on imported foodstuffs

We are significantly dependent on certain ingredients and equipment that are imported to Russia, particularly in the Moscow market. Russia has in place import quotas and tariffs on food products imported from the United States, the European Union and other major producing countries. Although we purchase substantially all our products and equipment locally, these measures generally increase prices for imported food products sold in Russia. We have no control over the imposition of such measures and such restrictions may increase in the future, thereby increasing the costs of these commodities and negatively affecting our results of operations.

In addition, the Russian authorities may ban imports of foodstuffs into Russia, as a result of health or other considerations. For example, in April 2006, the Russian authorities cancelled poultry import licences on veterinary grounds, halting imports of poultry products into Russia until a re-certification process was carried out. The Russian authorities currently ban the import of meat from Poland, traditionally an important supplier, on health grounds. In December 2006, in light of the discovery of unsanitary shipments of rice, the Russian authorities limited rice imports to four points of entry, disrupting supplies, and in February 2007, Russia announced a revised seasonal import tariff on rice from $90 to $155 per ton. Rice is an important ingredient for our Planet Sushi restaurants. Although we currently purchase and use imported rice, in case of disruption of rice supplies, we believe we would be able to temporarily use Russian-grown rice, which is currently less expensive but also of generally lower quality. The use of local rice would require slightly different preparation techniques in our kitchens and, given the difference in quality, would not be a good long-term replacement for imported rice. These and other measures that reduce the supply of imported foodstuffs available on global markets, or the supply available in Russia, may cause prices for our ingredients to increase, thereby increasing our costs. To the extent that we are not able to increase the price of the products sold in our restaurants without negatively affecting demand or to adjust our menu offerings to compensate for higher costs of ingredients, the imposition or continuation of such measures could adversely affect our business, financial condition and results of operations.

Failure to successfully renew our menus and introduce new menu items and products may adversely affect our business

Product development is an important factor in generating increases in sales. We regularly develop and intend to continue to develop and introduce new menu items and products. However, these new menu items and products may prove to be unsuccessful. We take active steps to mitigate the risk of unsuccessful product introductions and menu revisions. In particular, new products are tested in several ways before wide-scale implementation, including concept testing with customers in our loyalty programmes, in-house testing of products by our Research and Development Department (the "**R&D Department**") and limited in-restaurant testing at locations that cover the full range of our customer base. If a new product is successful in all phases of this testing, items are introduced throughout a restaurant concept on promotional menus and only the most successful are considered for inclusion on our regular menus. However, there can be no assurance that such efforts will be successful in identifying successful new products and avoiding unsuccessful introductions. Although we rarely substantially modify our menus, an inability to successfully introduce new menu items and products could adversely affect our business, financial condition and results of operations.

We depend on certain brand names that we may not be able to protect

Our ability to market and sell our products depends upon the recognition of our brand names and associated consumer goodwill. Trademarks of IL Patio, Planet Sushi, T.G.I. Friday's®, 1-2-3 Café, Sibirskaya Corona, Moka Loka and other brand names are key assets of our business. See "Business — Property — Intellectual Property." Maintaining the reputation of these brands and the goodwill associated with these trademarks is critical to our success. Substantial erosion in the value of our brand names could have a material adverse effect on our business, financial condition results of operations. Moreover, our products and restaurants may be imitated or copied. We have invested effort in protecting our portfolio of intellectual property rights, including through trademark registrations. However, we cannot be certain that the steps we have taken will be sufficient or that third parties will not infringe or misappropriate our brand names and intellectual property rights. In addition, our franchisees may take actions that impair the consumer goodwill we have developed in our intellectual property, and we may not be able to mitigate such actions or to do so in a timely way. Moreover, Russia and CIS countries generally provide lower levels of protection of intellectual property than Western European countries or the United States. Any inability to protect our intellectual property rights and brand names against infringement, dilution, misappropriation or challenge could adversely affect our business, financial condition and results of operations.

Furthermore, we use some brand names, including T.G.I. Friday's® and Sibirskaya Corona, under the terms of licence agreements with the trademark owner to use its trademarks within certain markets. Such agreements may be terminated upon certain conditions or may expire, and we may be unable to renegotiate these licences on suitable prices and terms. In addition, actions by the trademark owners or their other franchisees outside the markets in which we hold licences and beyond our control may negatively impact the reputation of these brands within our markets and reduce the goodwill associated with their trademarks. Any such loss in goodwill or inability to continue to use these brand names could adversely affect our business, financial condition and results of operations.

We are dependent on our franchisor for the development of T.G.I. Friday's® brand

We operate T.G.I. Friday's® restaurants in Russia, the CIS and Central Europe (and the Baltics) as a franchisee and therefore many factors and decisions with respect to such restaurants are subject to franchisor restrictions or approval requirements beyond our control, such as selecting restaurant locations or restyling our existing franchised restaurants. We are also required to comply with a comprehensive set of terms and conditions set forth in our franchise agreements.

As a result of the nature of franchising, the long-term success of our developing T.G.I. Friday's® restaurants will depend, to some extent, on the continued vitality of the T.G.I. Friday's® concept and the overall success of its worldwide franchise system, the goodwill associated with the T.G.I. Friday's® trademarks and the quality, consistency and management of the franchisor's overall systems.

Moreover, the success of a franchise significantly depends on the relationship between the franchisor and the franchisee. While we make every effort to ensure a positive relationship with our franchisor, there is no assurance that events or circumstances in the future may not adversely affect that relationship or that the franchisors will not enforce their contractual rights under the relevant franchise agreement in a manner that is adverse to us.

Any of these factors could adversely affect our business, financial condition and results of operations.

We rely in part on our franchisees, and if our franchisees cannot develop or finance new restaurants or build them on suitable sites, open them on schedule or manage them successfully, our growth and success may be affected

Our business strategy depends on the success of our subsidiaries (See also "— Our business depends on the results of operations and financial condition of our subsidiaries and may be adversely affected by legal, contractual or other limitations on such subsidiaries") and on the successful franchising of our restaurant concepts. We may not be able to identify suitable franchisees or we may not correctly manage our existing franchisees. Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that the franchisees we select will have the business acumen or financial resources necessary to operate successful franchises. Franchisees are independent business operators and, we do not exercise full control over their day-to-day operations. We provide training and support to franchisees and set and monitor operational standards, but there can be no assurance that our training and standards will be effective, and the quality of franchised restaurant operations may be diminished by various factors beyond our control. Consequently, franchisees may not operate restaurants in a manner consistent with our standards and requirements or may not hire and train qualified managers and other restaurant personnel. The failure of franchisees to maintain our standards and to operate our franchise restaurants successfully could have a material adverse effect on us, our reputation and our brands and could adversely affect our business, financial condition and results of operations.

Franchisees, as independent business operators, may from time to time disagree with our business strategies or our interpretation of rights and obligations under the franchise agreement. This may lead to disputes with our franchisees, which could have a material adverse effect on our business, financial condition and results of operations. In addition, if one or more of these franchisees were to become insolvent or otherwise were unwilling or unable to pay us their fees, it could adversely affect our financial condition and results of operations.

Russian franchise law establishes several important legal norms (which may not be changed by contract) regarding the franchisor — franchisee relationship, including: a duly performing franchisee has a right to renew a fixed-term franchise agreement (and most of our franchise agreements are for a fixed five-year term) on "the same conditions" as the original agreement (subject to the right of the franchisor not to renew in which case, however, the franchisor cannot establish a new franchise on the same territory for a period of three years, although it is not prohibited from establishing a corporate restaurant on such territory); for a franchise agreement without a fixed term, the franchisor and the franchisee each have a right to terminate the franchise agreement on six months notice; the franchisor cannot require the franchisee to use certain pricing (although in practice our franchisees generally follow our pricing guidelines); in certain circumstances, the franchisor can be secondarily liable for the sale of goods by the franchisee; and franchise agreements must be registered with state authorities (in practice, the local tax inspectorate of the jurisdiction of the franchisor). See "Regulatory Matters." To date, we have generally been able to operate within this statutory regime, but the inalienable rights that franchisees have under Russian law, if exercised, as well as any future legislation to enhance the rights of franchisees, could adversely affect our business, financial condition and results of operations.

Our business is highly labour-intensive and an inability to attract, motivate and monitor our restaurant personnel may adversely affect our business, financial condition and results of operations

Our business development strategy depends in part on our ability to implement best practices in hiring and management of our personnel. Our management and training of restaurant personnel at our restaurants are important in delivering a consistent, high-quality experience to our customers. We may face shortages of qualified labour to manage and operate our restaurants, higher-than-anticipated labour costs or an inability to monitor and motivate qualified restaurant personnel. Competition for these employees could require that we or our franchisees pay higher wages, which could also result in higher labour costs and have a material adverse effect on our business, financial condition and results of operations. Local government initiatives to manage labour conditions, including wage controls, may affect our ability to attract qualified labour and increase our labour costs. Although we have not yet experienced any significant problems in recruiting employees, our inability to recruit and retain such individuals may delay the planned openings of new restaurants or result in higher employee turnover in existing restaurants, which could increase our labour costs. Any of these factors could adversely affect our business, financial condition and results of operations.

We may be unable to obtain adequate managerial resources to support our plans for the growth and expansion of our business

Our strategy provides for the continued growth and expansion of our business. Managing such growth and expansion requires significant managerial and operational resources. Our future operating results depend in significant part upon the continued contributions of a small number of our key senior management and technical personnel. In addition, the number of qualified managerial and technical personnel in Russia is limited, and there is intense competition for the services of such persons. Management of growth requires, among other things:

- continued development of financial and management systems;
- implementation of adequate internal control over financial reporting and disclosure controls and procedures;
- increased marketing activities;
- hiring and training of new personnel; and
- coordination among our logistical, technical, accounting, finance, marketing and sales personnel.

An inability to manage successfully any of these or other factors could adversely affect our business, financial condition and results of operations.

Our management information systems, accounting systems and internal controls may be inadequate

Our management information system, financial reporting function and system of internal controls may be less developed in certain respects than those of casual dining operators that operate in more developed markets. We may also encounter difficulties in the ongoing process of implementing and enhancing our management information systems, in particular as we expand the size of our operations and the number of restaurants in our network.

Furthermore, our financial reporting system is not designed for the automated preparation of consolidated IFRS financial statements. For example, we do not have integrated information systems; each of our separate legal entities has its own accounting platform. Our subsidiaries prepare separate financial statements under local accounting standards for statutory purposes. In addition, we currently plan to prepare semi-annual consolidated IFRS accounts starting from 2008, but we do not currently prepare monthly or quarterly consolidated IFRS accounts. The preparation of IFRS consolidated financial statements is a manual process that involves, first, the transformation of the statutory financial statements of our subsidiaries into IFRS financial statements through accounting adjustments and, second, a consolidation of all subsidiaries' financial statements. This process is complicated and time-consuming, requiring significant attention from our senior accounting personnel at our corporate headquarters and subsidiaries and such attention may be difficult to properly maintain in light of our personnel's existing level of skills and knowledge to prepare IFRS consolidated financial statements, which is lower than in more developed markets.

We have taken, and plan to continue to take, steps to improve our reporting systems and internal controls, including implementing Microsoft Axapta and hiring additional qualified personnel in the area of financial reporting. Despite these steps, and in light of planned growth, we may not be able to detect or prevent a material misstatement of our annual or interim IFRS consolidated financial statements or to ensure that our IFRS consolidated financial statements are prepared in a timely manner in accordance with the applicable requirements or that our management is provided through our management information systems with as much or as accurate information as through management information systems in more developed markets.

Our inability to maintain adequate management information systems, financial reporting functions and systems of internal controls could adversely affect our business, financial condition and results of operations.

Our insurance coverage may be inadequate, as a result of which the loss or destruction of our assets could have a material adverse effect on our financial condition and results of operations

We insure our property, equipment, product stock and civil liability in Moscow, the Russian regions and the CIS with major Russian insurance companies when possible (Rosno, Ingosstrakh), although in some markets where such insurers do not have a representative office, we may use local insurance companies, which may not be as reliable or financially solvent. We insure our operations in Central Europe (and the Baltics) with local insurers in those markets. The list of insured accidents includes risk of damage caused as a result of fire, thunderbolt, gas and other household explosions, flood and water main accidents, robbery and criminal activity, vandalism and unlawful acts of third parties, power outages, unexpected failure of freezing equipment, terrorism and other similar events.

We determine the amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on our assets at a commercially reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of its assets. Any such development could adversely affect our business, financial condition and results of operations.

Failure to comply with existing government regulations, or increased governmental regulation of our operations, could result in substantial additional compliance costs or administrative penalties that could adversely affect our financial condition and results of operations

Our operations and properties are subject to regulation by various government entities and agencies. Our operations are subject to various regulations, including health and safety, production, packaging, quality, labelling and distribution standards. Our operations are also subject to various environmental laws and workplace regulations. Compliance with, or any violation of, current and future laws or regulations could require material additional expenditures by us or otherwise adversely affect our business or results of operations. See "Regulatory Matters."

We are required to obtain various licences, permits and certificates for each of our restaurants and distribution centres. Licensing authorities may suspend or deny renewal of our licences if they determine that our operations do not meet the established standards or a number of formal grounds. Various bodies have the power to conduct inspections of our operations and to impose fines on us or temporarily or permanently close down any operations that fail to comply with applicable regulations. To date, we have not experienced any such claims that have had a material adverse effect on our business, although no assurance can be given that this will remain the case in the future. Difficulties in obtaining, or any failure to obtain, the required authorisations, or the loss thereof could result in delaying or cancelling the opening of new operations or the closure of existing operations, or could otherwise adversely affect our business, financial condition and results of operations.

Our controlling beneficial shareholder has, and will continue to have after the Offering, the ability to exert significant influence over us, and his interests may conflict with those of other holders of our shares

We are controlled by Mr. Rostislav Ordovsky-Tanaevsky Blanco, the chairman of our board of directors and our principal beneficial shareholder, who will beneficially own 61.292% of our issued share capital immediately following the Offering, the Closed Subscription and the Shareholder Transfers. As a result of his controlling interest, Mr. Ordovsky-Tanaevsky Blanco has, and will retain after the Offering, the ability to exert significant influence over us and certain actions that require shareholder approval, including, but not limited to, the increase or decrease of our share capital, the election of our board of directors, the declaration of dividends, the appointment of management and other policy decisions. See "— Legislative and Legal Risks — There is only limited protection of minority shareholders in Russia." While we have four directors who are independent directors under the criteria set out in the Federal Law No. 208-FZ "On Joint Stock Companies" of 26 December 1995, as amended (the "**Joint Stock Companies Law**") and the requirements of the Russian Federal Service for Financial Markets ("**FSFM**"), these criteria differ from those that are set out, for example, in the U.K. Combined Code. The interests of our controlling shareholder could conflict with those of the holders of the Shares, which could negatively affect investments in the Shares and adversely affect our business, financial condition, results of operations and the market price of the Shares.

Our competitive position and future prospects depend on our controlling beneficial owner's and senior management's experience and expertise

The involvement of the chairman of our board of directors and our controlling beneficial owner, Mr. Ordovsky-Tanaevsky Blanco, in defining and monitoring our business strategy has been, and we believe will continue to be, significant. However, there can be no assurance that Mr. Ordovsky-Tanaevsky Blanco will continue to be involved in our affairs. Our business could suffer if Mr. Ordovsky-Tanaevsky Blanco ceased to participate actively in the strategic management of our company.

In addition, our ability to maintain our competitive position and to implement our business strategy is dependent to a significant extent on the services of our senior managers, including our chief executive officer (the "**CEO**"), Lori Daytner. We depend on our current senior management for the implementation of our strategy and the operation of our day-to-day activities. Furthermore, personal connections and relationships of members of senior management are important to the conduct of our business. However, there can be no assurance that these individuals will continue to make their services available to us in the future.

The loss or diminution of the services of our controlling beneficial owner or senior managers or an inability to attract and retain additional senior management personnel could have a material adverse effect on our business, financial condition, results of operations or prospects. Moreover, competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect our ability to retain our existing senior management and attract additional suitably qualified senior management personnel. As a result, the departure of key managers could adversely affect our business, financial condition, results of operations or prospects.

Our business depends on the results of operations and financial condition of our subsidiaries and may be adversely affected by legal, contractual or other limitations on such subsidiaries

Other than through franchisees, we conduct substantially all of our production, sales and marketing operations and the majority of our borrowings through our subsidiaries. See also "— We rely in part on our franchisees, and if our franchisees cannot develop or finance new restaurants or build them on suitable sites, open them on schedule or manage them successfully, our growth and success may be affected." Our primary source of funds to pay expenses are dividends and other intercompany transfers of funds from our subsidiaries. The ability of our subsidiaries to pay dividends and make other payments to us depends on their results of operations and financial condition and also may be restricted by, among other things, applicable corporate and other laws and regulations (including those imposing currency controls or transfer restrictions), financing arrangements and other agreements and commitments of such subsidiaries. The imposition of new restrictions on the ability of our subsidiaries to transfer funds to us, via dividend payments or otherwise, or the existence of significant restrictions on such payments contained in existing or future agreements and commitments could limit the dividend payments our subsidiaries are able to make to us and, therefore, our operational flexibility and could adversely affect our business, financial condition and results of operations.

A challenge to our past or future approval of transactions among our subsidiaries that require special approval in accordance with Russian legislation could adversely affect our results of operations

Russian law requires a company that enters into an interested party transaction to obtain special approvals. See "Description of Share Capital and Certain Requirements of Russian Legislation — Interested Party Transactions." We and our subsidiaries have in the past carried out, and continue to carry out, transactions with other companies in the Group that may be considered "interested party transactions" under Russian law, requiring approval by a majority vote of the disinterested directors or of all disinterested shareholders (whether or not attending the shareholders' meeting at which the transaction is considered), in advance of a particular transaction. Russian law also requires a company that enters into major transactions to obtain special approvals. See "Description of Share Capital and Certain Requirements of Russian Legislation — Major Transactions." We and our subsidiaries have in the past carried out, and continue to carry out, certain transactions that may be considered "major transactions" under Russian law requiring special approval and possibly giving rise to appraisal rights to its shareholders. In the past, certain transactions between and among us, our subsidiaries and our affiliates did not receive approval as interested party transactions or major transactions in accordance with the procedures set forth in Russian law and, therefore, may be invalidated. In addition, we might fail to obtain proper approvals for interested party transactions or major transactions in the future. Our inability to obtain proper approvals for such transactions or invalidation of such existing or future transactions could limit our operational flexibility and adversely affect our business, results of operations and financial condition.

Partners in our regional partnerships, who are shareholders in certain subsidiaries, have levels of shareholdings that are sufficient to prevent such subsidiaries from conducting certain transactions that require supermajority shareholder approval

Partners in our regional partnerships, who are shareholders in some of our subsidiaries, have levels of shareholdings that are sufficient to require such shareholders' consent for certain corporate actions by such subsidiaries. As a result, corporate actions proposed to be taken by such subsidiaries may be subject to the approval of minority shareholders, and no assurance can be given that such minority shareholders will vote in the same manner as our shareholding in such subsidiaries. The inability to obtain the approval of such shareholders for proposed transactions could hamper our ability to complete such transactions, if at all, and could adversely affect our business, financial condition and results of operations.

The forced liquidation of our subsidiaries due to negative net assets could adversely affect our results of operations

In accordance with Russian legislation, in the event that a company's net assets, as stated in the annual balance sheet prepared under Russian accounting standards ("**RAS**"), fall below the minimum charter capital required by law, the company must voluntarily liquidate and in the event that a company's net assets, as stated in the annual balance sheets prepared under RAS, fall below its charter capital, the company must reduce its charter capital such that it does not exceed the company's net assets. If it fails to decide upon its liquidation or to decrease its charter capital, as the case may be, within a "reasonable period," the company's creditors may accelerate their claims or demand early performance of the company's obligations to them and demand payment of damages, and governmental authorities may seek the involuntary liquidation of the company. Courts have occasionally ordered the involuntary liquidation of a company for having negative net assets, even if the company had continued to fulfil its obligations and had net assets in excess of the minimum amount at the time of liquidation.

Some of our regional subsidiaries had net assets below the minimum charter capital required by law as of 1 May 2007. We believe that these subsidiaries, individually and taken together, are not material to our operations. We believe that, as long as these subsidiaries continue to fulfil their obligations, the risk of their liquidation is minimal. Moreover, we may choose to mitigate these risks by increasing the charter capital of such subsidiaries or increasing their retained earnings. However, if involuntary liquidation were to occur, we would be forced to reorganise the operations we currently conduct through these subsidiaries, which could adversely affect our business, financial condition and results of operations.

Risks Relating to the Russian Federation

Political and Social Risks

Political and governmental instability could adversely affect the value of investments in Russia

Since 1991, Russia has moved from a one-party state with a centrally planned economy to a federal republic with democratic institutions and a market-oriented economy, but the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the political conditions have at times been unstable, as evidenced by frequent conflicts among executive, legislative and judicial authorities. During his term as president, President Putin has generally maintained governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supportive of President Putin.

In February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as Prime Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the Government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. President Putin has implemented reforms by which executives of sub-federal political units are no longer elected by the population, but instead are nominated by the President of the Russian Federation and confirmed by the legislature of the sub-federal political unit. In addition, single-member-district elections for the State Duma were eliminated, and all votes are instead to be cast on a party-list basis.

The forthcoming scheduled elections of the State Duma in December 2007 and the President in March 2008 may lead to the adoption of a different approach to reforms, to government instability and to social unrest in Russia. Recent marches by various opposition movements critical of President Putin have at times resulted in mass arrests. Future changes in the Government, major policy shifts or lack of consensus between the President, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could adversely affect us and the value of investments in Russia.

Political, social and other conflicts and corruption create an uncertain operating environment that hinders our long-term planning ability and could adversely affect the value of investments in Russia

The Russian Federation is a federation of 86 sub-federal political units (to be decreased to 84 from 1 January 2008), consisting of republics, territories, regions, districts, cities of federal importance and an autonomous region. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently carrying out our business strategy. See also "— Legislative and Legal Risks — Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on our business and the value of investments in Russia."

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighbouring regions. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. In this regard, terrorists have sometimes targeted restaurants for attacks, and a sustained campaign of terrorist attacks against restaurants (whether or not part of our business) could deter customers from frequenting our restaurants. The further intensification of violence, including terrorist attacks, or its continued spread to other parts of Russia, could have significant political consequences and could adversely affect our results of operations and prospects and the value of investments in Russia.

The implementation of Russia's economic reforms has also led from time to time to social protest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes that included blocking major railroads, and, in early 2005, pensioners in cities across Russia protested the replacement of certain in-kind benefits with cash allowances. The escalation of social unrest could adversely affect our ability to conduct business in Russia.

The Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Press reports have also described instances in which Government officials have engaged in selective investigations and prosecutions to further the interests of the Government and individual officials or business groups. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. In addition, persons who are hostile to us, our management and/or our beneficial owner may allege, in the press or elsewhere, that we and/or our beneficial owner have engaged in illegal activities. Demands of corrupt officials, claims that we or our management or our beneficial owner have been involved in corruption or illegal activities or biased articles and negative publicity could adversely affect our ability to conduct our business and the value of investments in Russia and other CIS countries.

The occurrence of any or all of the foregoing developments could adversely affect the value of investments in Russia, such as the Shares.

Deterioration of Russia's relations with other countries of the former Soviet Union could disrupt normal business activity

Since Mr. Putin became President in 1999, Russia has attempted to reassert its geopolitical interests in what had previously been Republics of the USSR. On several occasions, this has resulted in the deterioration of Russia's relations with such countries, including a comprehensive economic embargo on Georgia in 2006 and temporary suspension of oil transshipments through Belarus in 2007. The Russian Law "On Special Economic Measures," adopted in the fall of 2006, grants the President of Russia, acting only upon recommendation of the Russian Security Counsel, authority to both (i) impose restrictions or prohibit dealings with foreign states and/or foreign citizens and (ii) impose obligations to perform specific activities in furtherance of the adopted economic measures. If Russia were to impose a similar embargo or adopt any of the restrictive economic measures contemplated by the Law "On Special Economic Measures" with respect to any of the countries in which we operate, or if any of these countries were to impose similar measures on Russia, our business, results of operations or financial condition could be adversely affected.

Economic Risks

Economic instability in Russia could adversely affect our business

Since the dissolution of the Soviet Union in 1991, the Russian economy has experienced at various times:

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

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies.

Recent favourable trends in the Russian economy, such as the increase in gross domestic product, a relatively stable Rouble and a reduced rate of inflation, may not continue or may be abruptly reversed. For example, during 2005 economic growth slowed and consumer price inflation remained high, and consumer price inflation in Russia remained high during 2006. In addition, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could adversely affect our costs of doing business and/or consumer demand in Russia and, therefore, could adversely affect our business, financial condition and results of operations.

The Russian banking system remains underdeveloped, and there are a limited number of creditworthy Russian banks

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks is subject to varying interpretation and inconsistent application. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. Banking supervision is also often inadequate, as a result of which many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by deterioration in the credit quality of the loan portfolio of those banks. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate Rouble bonds in their portfolios, which is further deteriorating the risk profile of the assets of Russian banks. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, in 2004, the CBR revoked the licences of some Russian banks, which resulted in market rumours about additional bank closures and many depositors withdrawing their savings. Several privately owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the state or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. If a banking crisis were to occur, Russian companies could be subject to severe liquidity constraints due to the limited supply of domestic savings and the potential withdrawal of foreign funding sources.

There are currently a limited number of creditworthy Russian banks, most of which are located in Moscow. We have tried to reduce our risk by receiving and holding funds in Russian banks that we believe are creditworthy, as well as subsidiaries of foreign banks. A banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could adversely affect our business, financial conditions and results of operations.

The physical infrastructure in Russia is in poor condition, which could disrupt our normal business activities

Russia's physical infrastructure largely dates back to Soviet times, and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission facilities, communication systems and building stock. Road conditions throughout Russia are poor, and many roads do not meet minimum requirements for use and safety. On 25 May 2005, a failure in the power transmission network interrupted electricity supplies in Moscow and four other regions of Russia, causing significant disruptions to business activity, and in January 2006, electricity supplies to certain industrial customers in Moscow and some other regions of Russia were reduced as a result of extreme cold in Russia. Service reductions, breakdowns and failures of any part of Russia's physical infrastructure may disrupt normal business activity.

In order to enhance the prospects of infrastructure improvement, the Government is reorganising Russia's rail, electricity and telephone systems. Such reorganisations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's infrastructure may limit economic growth, disrupt the transportation of goods and supplies and interrupt our business operations or those of our customers and suppliers, any or all of which could adversely affect our business and the market price of the Shares.

Fluctuations in the global economy may adversely affect the Russian economy and our business

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could deter foreign investment in Russia, and Russian businesses could face severe liquidity constraints, further materially adversely affecting those businesses and the Russian economy. Additionally, the Russian economy remains poorly diversified and retains a high degree of reliance on the natural resources sector. For example, as Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market, and a decline in the price of oil could slow or disrupt the Russian economy. Russia is also a major producer and exporter of metal products, and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or anti-dumping measures by the United States, China, the European Union or by other principal export markets. Any such fluctuations could adversely affect our business, financial condition and results of operations.

Incomplete, unreliable or inaccurate third party and official data and statistics could create uncertainty

We have sourced certain information contained in this Offering Memorandum from third parties, including Rosstat, Euromonitor and In-Depth, and other private companies and institutes, international organisations and Russian government agencies, and we have relied on the accuracy of this information without independent verification. Official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. In addition, certain information has been obtained from research prepared by In-Depth, a Moscow based research agency at our request. Any discussion of matters relating to Russia in this Offering Memorandum must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by Russian governmental authorities may be questionable, and such data may be subject to revisions.

Legislative and Legal Risks

Weaknesses in the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and could have a material adverse effect on our business and the value of investments in Russia

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies:

- inconsistencies among (1) federal laws; (2) decrees, orders and regulations issued by the president, the Government and federal ministries; and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the legal framework due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation;
- a lack of judicial independence from political, social and commercial forces;
- the unpredictability of enforcement of both Russian and non-Russian judicial orders and arbitral awards;

- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Additionally, several fundamental Russian laws have only recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the scope, content and pace of economic and political reforms has resulted in ambiguities, inconsistencies and anomalies in the overall Russian legal system. The enforceability and underlying constitutionality of certain recently enacted laws is in doubt, and many new laws remain untested. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our legal rights in Russia, including rights under contracts, or to defend against claims by others in Russia.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is also incomplete. The court system is understaffed and underfunded; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgments. We may be subject to such claims and may not be able to receive a fair trial.

Disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in the Russian Federation. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could adversely affect our business, prospects, results of operations or financial condition or on the price of the Shares.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our businesses, their assets or portions thereof, potentially without adequate compensation, could adversely affect our business and prospects and on the value of investments in Russia, such as the Shares.

Unlawful, selective or arbitrary government action may have an adverse effect on our business and the value of investments in Russia

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes. In addition, since 2003, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to attack certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective. For example, in 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OJSC NK Yukos ("**Yukos**"), then Russia's largest oil company by production, on tax evasion, fraud and related charges. On 31 May 2005 they were each sentenced to nine years imprisonment (subsequently reduced to eight years) on these charges and their subsequent appeals were rejected. Significant back tax claims were also brought against Yukos, resulting in the auction of its major production subsidiary, OJSC Yuganskneftegaz, and Yukos was declared bankrupt in July 2006. The press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP, telecommunications companies, including OAO Vimpelcom, and other major companies. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups."

In this environment, our competitors may receive preferential treatment from governmental authorities, potentially giving them a competitive advantage. Although we believe that we are currently in compliance with all of our tax obligations with respect to our operations in the Russian Federation, there can be no assurance that the Federal Tax Service will not become more aggressive in respect of future tax audits, which may have an adverse effect on our results of operations and prospects. Unlawful, selective or arbitrary government action, if directed at our operations, could adversely affect our business, results of operations and prospects and on the value of investments in Russia.

Developing corporate and securities laws and regulations in Russia may limit our ability to attract investment

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United Kingdom, the United States and elsewhere in Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, antifraud safeguards, insider trading restrictions and fiduciary duties have been adopted relatively recently and have more limited histories of interpretation and enforcement. In addition, the Russian securities market is regulated by several different authorities, including the FSFM, the Ministry of Finance, the Federal Antimonopoly Service, the CBR and various professional self-regulatory organisations, which are at times in competition with or operate in contradiction to each other.

Russian corporate and securities rules and regulations are also subject to rapid change. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by various regulatory authorities apply to us. As a result, we may be subject to fines or other enforcement measures despite our best efforts at compliance. Any or all of these factors could adversely affect our ability to conduct securities-related transactions, including the Offering.

There is only limited protection of minority shareholders in Russia

In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for some corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on some types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Description of Share Capital and Certain Requirements of Russian Legislation — Interested Party Transactions." While these protections are similar to the types of protections available to minority shareholders in U.S. corporations, in practice, corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices.

In addition, the supermajority shareholder approval requirement is satisfied by a vote of 75% of all voting shares that are present at a shareholders' meeting. As a result, a controlling shareholder owning less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where a controlling shareholder effectively has 75% or more of the voting power at a shareholders' meeting, that controlling shareholder is in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. Any such actions by our controlling shareholder could adversely affect the value of the Shares.

While the Joint Stock Companies Law provides that shareholders owning not less than 1% of the company's stock may bring an action for damages suffered by the company, Russian courts to date have not had much experience with respect to such lawsuits. In addition, Russian law does not contemplate class action litigations. Accordingly, the ability of investors in the Shares to pursue legal redress against us and the Selling Shareholder may be limited.

Moreover, some protections for minority investors that are provided under Russian law may impose additional costs on us. For example, the Joint Stock Companies Law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value. The decisions that trigger this right to sell shares include decisions with respect to a reorganisation; the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth 50% or more of the gross book value of the company's assets calculated according to RAS; and the amendment of the company's charter in a manner that limits shareholder rights. Any obligation imposed on us or our subsidiaries to purchase shares in these circumstances, though limited to 10% of the relevant company's net assets calculated in accordance with RAS at the time the matter at issue is voted upon, could adversely affect our results of operations and financial condition.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries

The Russian Civil Code (the "**Civil Code**"), the Joint Stock Companies Law and the Federal Law No. 14-FZ "On Limited Liability Companies" (the "**Limited Liability Companies Law**") generally provide that shareholders in a Russian joint stock company or limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "**effective parent**") is capable of determining decisions made by another (an "**effective subsidiary**"). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

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

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case regardless of how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing that such action or inaction would result in losses. Much of our debt consists of obligations of our direct or indirect Russian subsidiaries. Accordingly, as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries in Russia. Such liability could adversely affect our business, financial condition and results of operations.

Foreign judgments may not be enforceable against us

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive investors of effective legal recourse for claims related to their investment in the Shares.

The Russian Federation is a party to the New York Convention. Therefore, a foreign arbitral award obtained in a country that is a party to the New York Convention should be recognised and enforced by a Russian court, subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation and non-violation of Russian public policy. However, there can be no assurance that a foreign arbitral award will be recognised or enforced in Russia. There is also a risk that Russian procedural legislation will be changed by the introduction of further grounds for preventing the recognition and enforcement of foreign court judgments and arbitral awards in the Russian Federation. Furthermore, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of additional factors, including the inexperience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts' inability to enforce such orders and judicial or other corruption in Russia.

Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of investments in Russia

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax ("**VAT**"), unified social tax and property tax. The tax environment in Russia has historically been complicated. In the past, tax legislation was ambiguous, and the tax authorities were known to interpret tax legislation in a contradictory manner. Because of the political changes that have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system.

Tax reform commenced in 1999 with the introduction of Part One of the Russian Tax Code, which sets out general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, excise tax, unified social tax and personal income tax came into force on 1 January 2001; the profits tax and mineral extraction tax chapters came into force on 1 January 2002; the corporate property tax chapter of the Tax Code came into force on 1 January 2004; and the land and water tax chapters of the Tax Code came into force on 1 January 2005.

In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often must resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. In its decision of 25 July 2001, the Russian Constitutional Court introduced the concept of a "taxpayer acting in bad faith," or a "bona fide taxpayer" which was not defined by the Constitutional Court or defined in Russian tax law. Nonetheless, tax authorities are increasingly using this concept, sometimes to invalidate taxpayers' reliance on the letter of the tax law.

The "bona fide taxpayer" concept has been further developed and significantly reconsidered last year. On 12 October 2006, the Plenum of the Supreme Arbitration Court issued Resolution No. 53, which set out specific rules as to the basis for a tax benefit being deemed to be unjustified. Resolution No. 53 was intended to bring more clarity to the application of a "bona fide taxpayer" concept, making it more transparent and consistent as well as introducing the new concept of "unjustified tax benefit," which refers mainly to the business purpose and substance over form approaches. There is no practice or guidance on interpretation of this new concept by the tax authorities or courts; however it is likely that the tax authorities will actively seek to apply this concept when challenging in courts tax positions taken by taxpayers. While the intent of Resolution No. 53 was to combat abuse of tax law in practice, there is no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitration Court. Furthermore, the Resolution of the Plenum of the Supreme Court No. 64 of 28 December 2006 «On Practice of the Application of the Liability for the Tax Crimes» is indicative of the trend to broaden the application of criminal liability for tax violations.

Generally, taxpayers are subject to a tax audit for a period of three calendar years of their activities that immediately preceded the year in which the audit is carried out. However, previous audits do not exclude the possibility of subsequent claims relating to the audited period, as Russian tax law authorises upper-level tax inspectorates to review the results of tax audits conducted by subordinate tax inspectorates. As a result, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be tolled if a court determines that a taxpayer has obstructed or hindered a tax audit. Furthermore, recent amendments to Part One of the Tax Code effective as of 1 January 2007 provide for the possibility of an extension of the three-year term in cases where actions of the audited taxpayer created insurmountable obstructions to a tax audit. Because the terms "obstructed," "hindered," and "insurmountable obstructions" are not defined, tax authorities may therefore have broad discretion to argue that a taxpayer has "obstructed" or "hindered" an audit or created "insurmountable obstructions" to an audit and ultimately seek penalties for periods beyond the three-year statutory term. In addition, in some instances, new tax regulations have been given retroactive effect.

Moreover, financial results of Russian companies are not consolidated for tax purposes. Therefore, each of our subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in our consolidated group. In addition, dividends are subject to a withholding tax of 9% if distributed to Russian companies and Russian resident individuals, 15% if distributed to foreign companies and 30% if distributed to individuals who are not Russian residents (unless reduced pursuant to an applicable tax treaty). If a Russian company that receives intercompany dividends itself pays a dividend, it may offset the withholding tax paid against its own withholding liability for the dividend that it pays to Russian companies and individuals resident in Russia, though not against any withholding made on a distribution to foreign companies or non-resident individuals. These tax requirements may impose additional burdens and costs on our operations.

It is expected that the President will sign amendments to the profits tax chapter of the Tax Code which would introduce a zero percent tax rate on dividends received by qualifying Russian companies and a 15% tax on dividends paid to individuals who are not Russian residents. Under the draft law, a zero percent tax rate would apply to dividends received by Russian companies which own at least 50% of the paying company for the minimum holding period of one year and have invested at least US$20,000,000 into the paying company. Furthermore, if the payer of dividends is a foreign legal entity, the zero percent tax rate should apply if this foreign entity is not resident in a country which is included in the list of low tax jurisdictions and offshore zones provided by the Ministry of Finance of the Russian Federation. These amendments have been approved by the State Duma and the Federation Council and would come into effect from 1 January 2008 if approved by the President.

The foregoing ambiguities in the application and interpretation of Russian tax law and regulations and other conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. There can be no assurance that current taxes will not be increased, that additional tax charges will not be imposed on us or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see "— Unlawful, selective or arbitrary government action may have an adverse effect on our business and the value of investments in Russia."

These risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and could adversely affect our business and results of operations and the value of investments in Russia.

In addition, we previously participated in arrangements that resulted in tax benefits to the Group. We have substantially eliminated these arrangements with effect from 31 December 2006. Although we believe that substantially similar arrangements have been entered into by other companies in the Russian retail sector, there is a risk that certain of these arrangements could be challenged or recharacterised by the relevant tax authorities or courts as not having been in compliance with Russian tax laws applicable at the relevant times. Any such challenge or recharacterisation could result in a requirement to pay material additional taxes, as well as related penalties and interest, which have not been recorded in our Financial Statements as provisions or liabilities because management believes its interpretation of the relevant Russian tax laws applicable to such arrangements is correct and that such arrangements are likely to be sustained if reviewed by the relevant tax authorities. See Note 23 to our Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operation — Certain Factors Affecting Results of Operations." However, there can be no assurance that management's interpretation of the relevant Russian tax laws is correct or that such historical arrangements will not be invalidated, and result in material liabilities.

Vaguely drafted Russian transfer pricing rules and a lack of reliable pricing information may affect our results of operations

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include domestic and international transactions between related entities and certain other types of transactions between independent parties, such as barter, foreign trade transactions or transactions with significant (greater than 20%) price fluctuations within a short period of time. Transfer pricing rules also apply to transactions involving securities and derivatives, and the rules applicable to such transactions may be more complex and restrictive than those with respect to other transactions.

Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Moreover, in the event that Russian tax authorities assess a transfer pricing adjustment, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. While members of our consolidated group engage in numerous transactions between related parties, we seek to conduct such transactions based on arm's length prices. However, it is not always possible to determine a relevant market price, and the view of Russian tax authorities as to what constitutes an appropriate market price may differ from our position. As a result, Russian tax authorities may challenge our prices in such transactions and propose price adjustments. If any such price adjustments were upheld by the Russian courts and implemented, we could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have an adverse effect on our financial condition and results of operations. See also "— Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of investments in Russia."

Risks Relating to Other Jurisdictions

We face risks associated with conducting business in other emerging markets, including the CIS and some parts of Central Europe (and the Baltics)

We currently have operations in some countries in the CIS besides Russia (Belarus, Ukraine and Kazakhstan) and in Central Europe (and the Baltics) (Czech Republic, Hungary and Latvia) and our strategy depends in part on increasing our operations in some of these markets. Like Russia, many of these countries are emerging markets and are subject to greater political, economic, social and legal risks than more developed markets. In many respects, the risks associated with conducting business in such markets are similar to, or can be higher than, those associated with conducting business in Russia. See "— Risks Relating to the Russian Federation."

Risks Relating to the Shares and the Trading Market

The Offering may not result in a liquid market for the Shares, and their price may be highly volatile

Before this Offering, there has been no public trading market for the Shares. Although the Shares have been admitted to trading on RTS, a public market may not develop or be sustained after this Offering. If a liquid trading market for the Shares does not develop, the price of the Shares may be more volatile and it may be more difficult to complete a buy or sell order for the Shares. In addition, Russian stock markets are substantially smaller and less liquid than many equity markets in Western Europe and the United States, and the Russian stock markets have experienced extreme price and volume fluctuations. In 1998, the RTS Index, an index of the shares of 65 major Russian companies, fell by approximately 86% in U.S. dollar terms. This severe decline — resulting from the financial crisis in Russia in 1998, investor concerns over investments in emerging markets in general and in Russia in particular, and speculation about further devaluation of the Rouble, inflation and other factors — adversely affected, for some time, the ability of Russian companies to raise capital through the sale of equity or debt securities. The decline also renewed concerns about the stability and liquidity in Russian financial markets. These market fluctuations could adversely affect the market price of the Shares. Many other factors could subject the Shares to wide fluctuations in market price, including:

- actual or anticipated fluctuations in our operating results;
- changes in expectations of our future financial performance;
- changes in securities analysts' financial estimates and projections;
- the operating and price performance of our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or other capital commitments;
- regulatory actions that may affect our operations; and
- general conditions in the restaurant industry or in the markets in which we operate.

Any such factors could adversely affect the market price of the Shares and could result in market prices below the Offering Price. Such factors could also adversely affect our business, financial condition or results of operations.

Investors may be unable to repatriate their earnings from our Shares

In its Information Letter No. 31 dated 31 March 2005, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are non-Russian residents. We can give no assurance that this declaration will not be reversed in the future. If, in the future, Russian companies were again required to pay all dividends on ordinary shares in Roubles, then we may not be able to pay timely dividends to some or all shareholders and may incur additional conversion costs.

The ability to convert Roubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency market. Although there is an existing market within Russia for the conversion of Roubles into U.S. dollars, including the interbank currency exchange and over-the-counter markets, the further development of Russia's currency market is uncertain. At present, there is no developed market for hedging Roubles and Rouble-denominated investments. Our inability to pay dividends in a timely and efficient manner, or at all, could adversely affect the market price of the Shares.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares, including the Shares

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars located throughout Russia. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by companies maintaining their own registers and by licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars often have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. See "Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Registration and transfer of shares."

Future issuance or sale of our shares may affect the market price for our shares

Future sales of substantial amounts of our ordinary shares beyond the lock-up period (see "Plan of Distribution") or even the perception that such a sale might occur could adversely affect the market price for our ordinary shares. In addition, any future equity offerings by us involving the issuance of new ordinary shares may reduce the percentage ownership of our shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the Shares. Any such issuances or sales could adversely affect the market price of the Shares.

Investments in Russian securities may, under certain conditions, be subject to income tax withholding, thereby reducing their value

The tax treatment of the income from the sale of Russian entities' shares varies depending on whether the shares are sold by a foreign legal entity or a foreign individual. Under existing Russian tax law, the income of a foreign legal entity generated from the sale of shares in Russian entities is subject to withholding tax only if more than 50% of the assets owned by the entity whose shares are being sold are comprised of immovable property located in Russia. As of the date of this Offering Memorandum, immovable property constituted less than 50% of our total assets. Accordingly, we believe that capital gains from trading in our shares would not be subject to Russian withholding tax where the foreign investor is a legal entity. However, because real estate is significant to our business and the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, there can be no assurance that immovable property located in Russia will not constitute more than 50% of our assets in the future. If more than 50% of our assets were to consist of immovable property located in Russia, the proceeds received from the sale of our shares by non-resident shareholders that are legal entities would be subject to Russian withholding tax. In such circumstances, foreign legal entities selling our shares may elect to be taxed either at the rate of 20% of the gross sales price, or at the rate of 24% of the difference between the sales price and the sum of the original purchase price and expenses, which relate to the sale and can be evidenced by documentary proof. The relevant legislation does not contain a similar provision relating to personal income tax. Any income from the sale of our shares by tax non-resident individuals will be subject to the Russian personal income tax at the rate of 30% if shares are sold to Russian residents (*i.e.*, inside Russia). The tax is paid via withholding or by way of self-assessment.

A number of the existing double tax treaties concluded by Russia provide for the exemption of the above capital gains from Russian taxation. However, the procedure of advance exemption under applicable treaty provisions is relatively undeveloped in the case of non-resident individuals, and obtaining subsequent tax refunds could prove to be difficult and time-consuming. The value of our shares could be adversely affected by any of these adverse tax consequences. See "Taxation."

If the share capital increase and the related Closed Subscription, which form an integral part of the Offering, are invalidated, we may not receive and retain a significant portion of the proceeds from this Offering and our shareholding structure may differ substantially from that which is currently contemplated

In the Offering the Selling Shareholder will sell 3,125,000 Shares. As part of the Closed Subscription, it will then pay a portion of the proceeds from the Offering to us in consideration for the issue to it of the New Shares. However, there can be no assurance that the Closed Subscription will be completed on the terms currently contemplated, as the FSFM or a court of law could invalidate the share capital increase and/or the issuance of the New Shares to the Selling Shareholder in certain circumstances, including if we violate any requirement of Russian law during the process of the issue.

We may not declare dividends in the foreseeable future or may be unable to pay dividends if they are declared

We do not currently anticipate declaring and paying dividends on the Shares in the foreseeable future, but instead plan to re-invest our profits in the growth of our business. All dividend payments must be recommended by our board of directors and approved by our shareholders, none of whom is under any obligation to either recommend or approve any dividend payments. In making a recommendation to pay dividends, our board of directors will take into account various factors, such as our operating results, financial condition and current and anticipated cash needs. See "Dividend Policy." In addition, our ability to pay dividends on the Shares is subject to legal and other requirements and restrictions at the holding company level. For example, we may only pay dividends out of net profits calculated in accordance with RAS. See "Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Dividends" and "Dividend Policy."

USE OF PROCEEDS

The Selling Shareholder will receive all the net proceeds from the Offering. The Selling Shareholder will use a portion of the proceeds from the Offering to subscribe for the New Shares in the Closed Subscription at a price equal to the Offering Price net of the portion of fees and expenses incurred in connection with the Offering and attributable to us. We will use the proceeds derived from the Closed Subscription primarily to construct new restaurants in the remainder of 2007 and in 2008 in Russia, the CIS and Central Europe (and the Baltics); optimise our leverage profile; strengthen our existing network in order to support expansion; pursue potential acquisitions; and fund the buy-out of all or part of the shares in our subsidiaries owned by some of our partners.

RESTAURANT INDUSTRY IN RUSSIA, THE CIS AND CENTRAL EUROPE (AND THE BALTICS)

Introduction

Our restaurant operations are exclusively located in the emerging markets of Russia, the CIS and a number of selected markets in Central Europe (and the Baltics). While these markets each have their own particularities, there are a number of common characteristics that are driving the growth of the restaurant industry within these regions. Most of these characteristics stem from a shared economic, political or cultural background.

The nature and speed of the development of the restaurant market in each of these markets has been mainly determined by increasing levels of personal income that gradually transform the strong culture of eating at home (while considering dining out as a luxury) towards a culture that integrates restaurant visits as a normal part of daily life.

In addition to a rising level of personal income, restaurant growth is supported by:

- A more dynamic lifestyle which, in turn, limits time for home-cooking for the younger and economically active generations (demand aspect);
- The accessibility of an expanding restaurant offering in cuisines and formats (supply aspect).

According to Euromonitor, a UK-based research agency, the main markets where we operate, Russia and the CIS, have shown in 2000 through 2005 a compound annual growth rate ("**CAGR**") of 9% to 21% that outperforms the growth rates of more developed countries:

Restaurant market overview

	Total market size 2005 *US$ millions*	2000-2005 CAGR
USA	399,976	4%
France	53,595	2%
Germany	35,888	(3)%
Russia	9,371	9%
Czech Republic	3,357	2%
Ukraine	3,390	21%
Hungary	2,644	6%
Latvia	533	4%
Belarus	387	17%
Kazakhstan	255	9%

Source: Euromonitor

The past experiences in Russia, the CIS and Central Europe (and the Baltics) have shown that at an early stage in the development of a country's restaurant industry, quick service restaurants and fine dining show the fastest growth. At a more developed stage, an emerging middle class fills the gap between these segments by focusing its restaurant visits mainly on casual dining.

From a geographical perspective, the central regions of Russia (Moscow and St. Petersburg) as well as Central Europe (and the Baltics) are — on a relative basis — the most advanced in their development and are restaurant markets in which the urban population eats out on a more frequent basis and has a wide choice of quality and reasonably priced restaurant outlets.

Russian Restaurant Market

Overview

The Russian market is the biggest restaurant market in which we operate, and it is the market in which the majority of our restaurants are located.

According to a report published by Euromonitor, the Russian restaurant industry underwent considerable structural changes during the last two decades and has developed into an industry segment that is now a significant contributor to the Russian economy, accounting for approximately US$10 billion in sales in 2006.

In Soviet times, the restaurant industry was limited to catering facilities in companies and state agencies, low quality street cafés in major cities and a few elite restaurants in Moscow and St. Petersburg servicing foreign tourists and the local establishment. Following the collapse of the Soviet Union in 1991, the Russian restaurant market fundamentally changed in response to the gradual introduction of eating-out into Russian culture. From a very low initial size, the industry exhibited steady growth until the 1998 financial crisis, which resulted in a substantial reduction of Russian incomes as well as an increase in the cost of imported food and food ingredients due to a significant increase of the U.S. dollar/Rouble exchange rate. As a result, many restaurants and cafés closed.

Both the Russian economy as a whole and the restaurant industry substantially recovered by 2002, and general economic growth provided the service industry in general, and the restaurant industry in particular, with a healthy base to develop further.

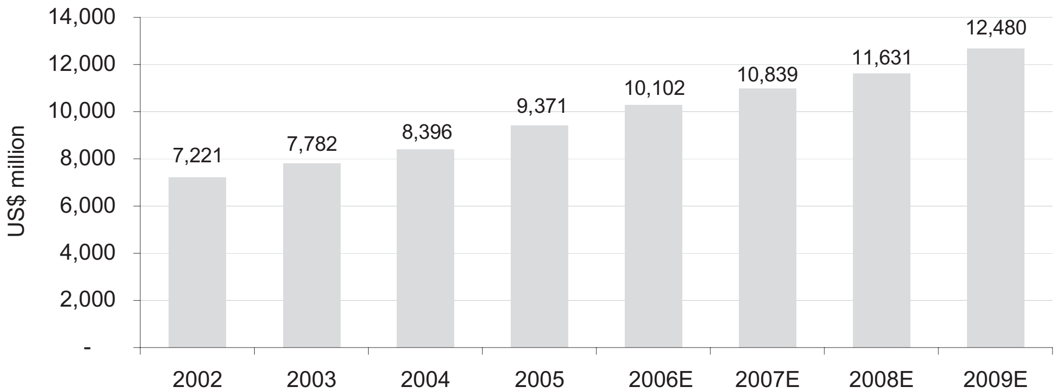
According to a 2005 report and preliminary 2006 estimates by Euromonitor, the Russian restaurant market sales volume grew at a compound annual growth rate of 9.1% from 2002 to 2005 reaching US$9.4 billion of sales in 2005.

In addition to the improved economic environment, the growth of the restaurant market in Russia is attributable to a number of factors, including:

- rising household incomes;
- further equalisation of income levels in different regions of the country;
- growing popularity of eating-out within the Russian culture;
- improved quality of restaurant service in Russia at affordable prices; and
- development of a more sophisticated and varied choice of restaurants and cuisines.

Euromonitor estimates that the Russian restaurant market sales volume increased by 7.8% in 2006 compared to the previous year to an amount of US$10.1 billion. In 2006, the number of restaurant outlets reached 80,910 units. Euromonitor expects continued strong growth for the sector (a compound annual growth rate of 7.3% from 2006 to 2009 to reach US$12.5 billion in 2009).

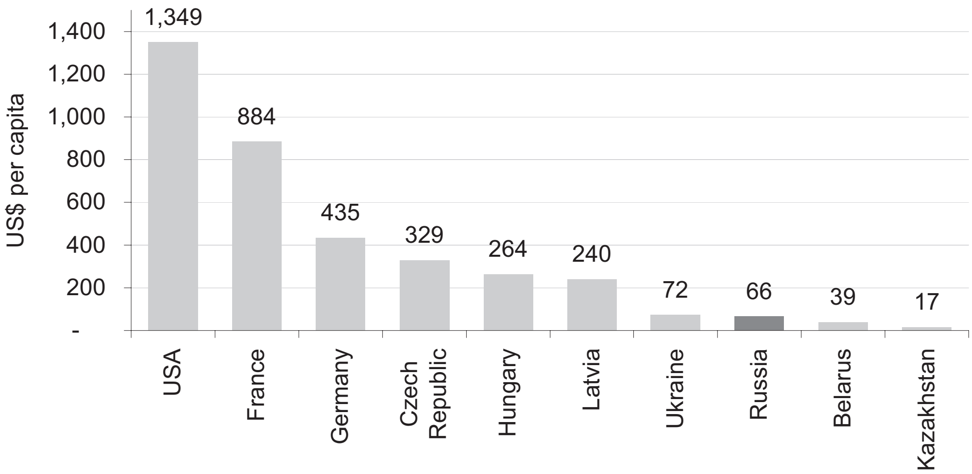
Restaurant Market Volume in Russia in 2002-2009



Source: Euromonitor

Notwithstanding this projected growth level, restaurant sales per capita in Russia lag considerably behind mature markets but are expected to gradually catch-up due to the developing middle class in Russia.

Restaurant Sales per Capita in Russia and Some Other Countries in 2005



Source: Euromonitor

Market segments

The Russian restaurant industry includes both owned and franchised operations. It is an unconsolidated market and — due to the geographic size and economic conditions — is affected by variable levels of personal income, consumer tastes and demographic trends.

The Russian restaurant market can be segmented as follows:

- *Fine dining* outlets are restaurants providing full table service in which the average check per table is more than US$70. They normally have a stylish and expensively decorated interior and varied menu featuring unique and artistically prepared dishes. Fine dining restaurants are mainly located in city centres and business areas.

- *Casual dining* outlets are restaurants providing full table service in which the average check per table is between US$20 and US$70. Some premium pubs and bars that offer a good choice of dishes and have full table service also fall into this category.

- *Fast casual* outlets are cafeterias, canteens, cafes and snack bars and bars with partial or no table service by waiters in which the average check is between US$10 and US$20. Dishes are served on plates (not packaged) and with covers (*i.e.*, utensils). Disposable plates, cups and covers usually are not used.

- *Coffee shops* are public catering outlets (including tea rooms) that predominantly serve coffee, tea and desserts; however, some offer a wide range of main meal dishes. Table service is only available in some more up-market outlets. The average check is between US$10 and US$20.

- *Quick Service Restaurants* ("**QSRs**") are fast food outlets with limited menus that focus on a particular type of dish (*e.g.*, hamburgers, pancakes) or dishes from a particular food product (*e.g.*, chicken, potato). Dishes are mainly served wrapped in paper or foil or packed in paper boxes. Usually plates, cups and covers are disposable, and there is no table service. The average check is below US$20.

In general terms, the casual dining segment tends to become the biggest market segment once the restaurant market has reached a certain level of development. According to a report by In-Depth, a Moscow based research agency ("**In-Depth**"), in 2006, the casual dining segment in Moscow had an estimated US$2.2 billion in sales that represented 61% of the Moscow restaurant market.

Within the Russian market, the franchising concept is increasingly used as a tool to facilitate restaurant growth, despite the legislative risks that still remain. See "Risk Factors — We rely in part of our franchisees, and if our franchisees cannot develop or finance new restaurants or build them on suitable sites, open them on schedule or manage them successfully, our growth and success may be affected."

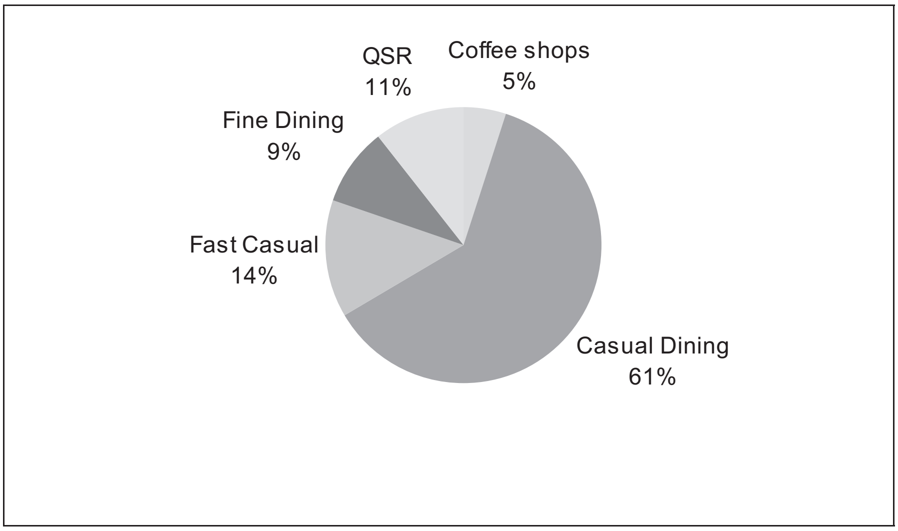
Besides food retailers, the restaurant industry has the greatest number of franchisees in Russia. Within the restaurant industry, operators of QSRs use the franchising model most frequently. More recently, casual dining operators have been adopting the franchising model in order to roll-out their restaurants. With 38 franchise restaurants as of 1 May 2007, we are currently the biggest franchiser in the casual dining segment, followed by Elki-Palki (which reportedly has 18 franchise restaurants).

Moscow restaurant market

According to In-Depth, Moscow accounted for 35% of restaurant market sales in Russia in 2006. Moscow restaurant sales amounted to US$3.5 billion in 2006, accounting for 16% growth over 2005. In 2006, the average annual restaurant sales in Moscow were US$339 per capita in comparison to US$25 per capita in the regions.

The current trend in Moscow is for restauranteurs to move from saturated segments, such as luxury fine dining, to the mid-price formats, such as casual dining and fast casual, which cater to the middle class.

Moscow Restaurant Market Sales by Segment in 2006

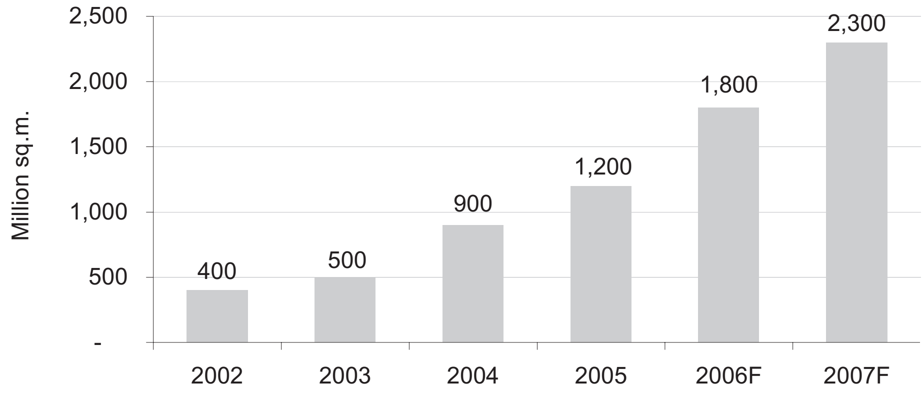


Source: In-Depth

Consequently, the casual dining segment is the largest segment in Moscow with a market share of about 61% of the total restaurant sales in 2006. According to In-Depth, sales in casual dining segment in Moscow in 2006 amounted to US$2.2 billion in 2006.

The high demand for franchises of QSRs and casual dining outlets is, to a certain extent, also fueled by the willingness of operators of new shopping and entertainment centres to include food courts on the premises. The boom in the construction of large shopping and entertainment centres created a niche for operators of QSRs to enter food courts. The current trend is that, in addition to food courts, shopping centres have areas for casual dining restaurants and cafes. Although trailing developments in Moscow by a few years, this trend can also be observed in a number of boom cities in Russia's regions, such as Yekaterinburg, Novosibirsk and Nizhny Novgorod.

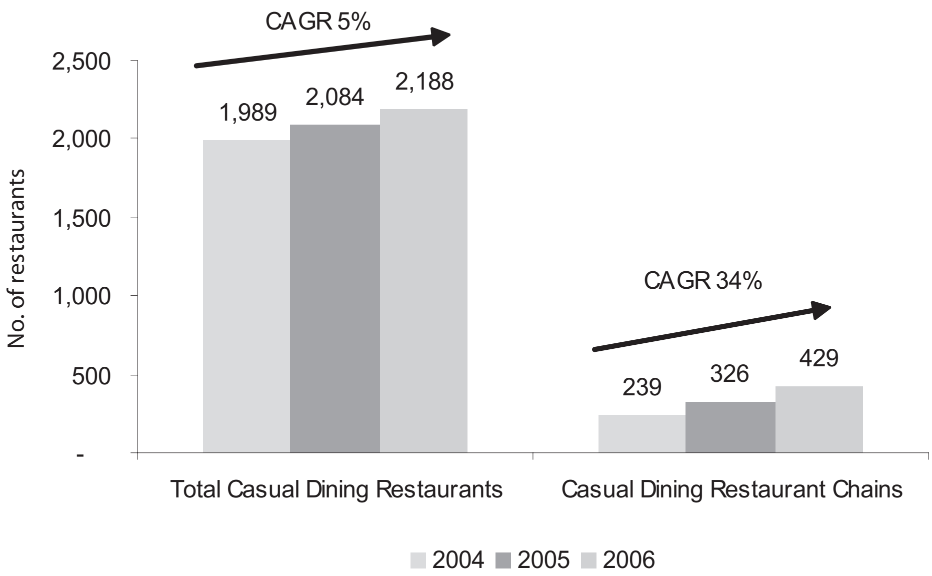
Moscow Shopping Centre Areas (2002-2007F)



Source: Jones Lang LaSalle

According to In-Depth, in Moscow, the majority of casual dining operators are operating single restaurants. Chain operators occupied approximately 29% of the Moscow casual dining segment by sales in 2006. The number of chain casual dining outlets amounted to 429 in 2006 in comparison with a total of 2,188 casual dining outlets. However, the growth of the casual dining segment is almost solely driven by the fast growth of chain outlets (increasing by 32% in 2006) in comparison to independent outlets (no change during the same period).

Moscow* Casual Dining Restaurant Chains in Comparison with Total Casual Dining Restaurants

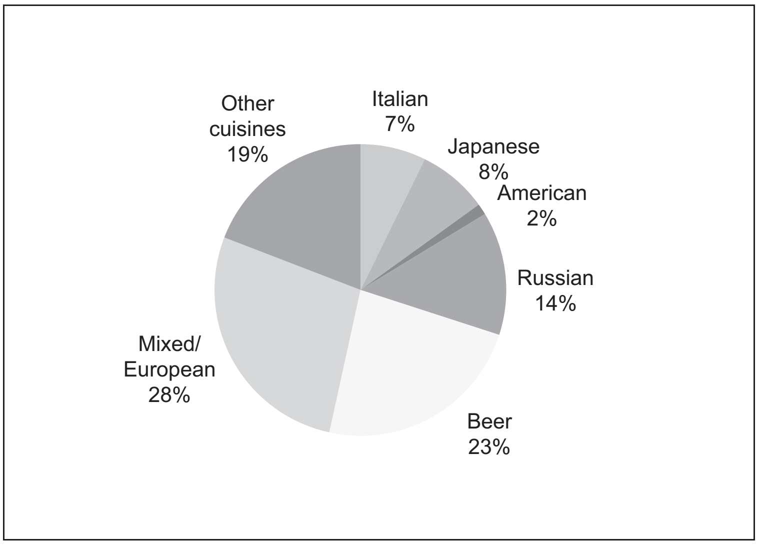


Source: In-Depth

Note: * — Moscow within city's legal boundaries

In terms of different types of cuisine, in Moscow there has been a massive expansion in Japanese full-service restaurants. By 2003, Japanese cuisine was the fastest growing restaurant segment in Moscow. However, by 2006, the growth of Japanese restaurants slowed. Italian cuisine is currently very popular. We have leading brands in both cuisines.

Moscow* Casual Dining Chain Sales by Cuisine in 2006



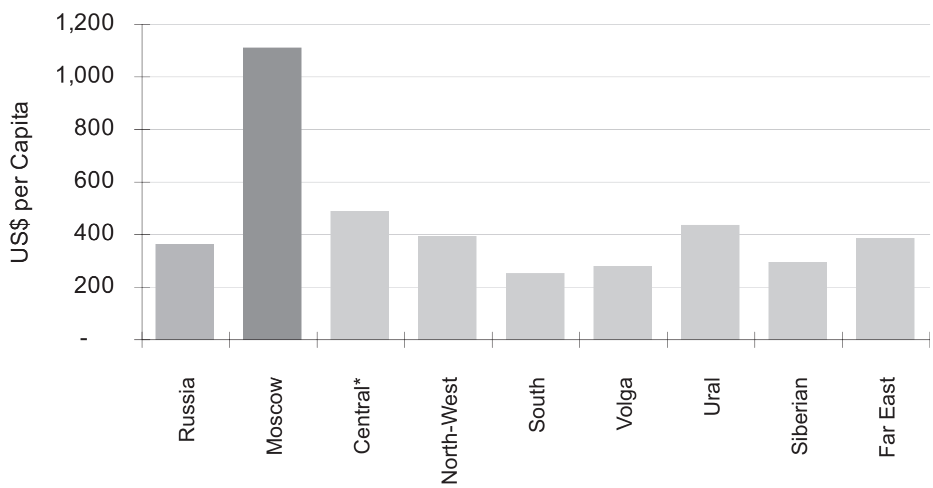
Source: In-Depth

Note: * — Moscow within city's legal boundaries

Russian regional restaurant market

In line with the overall growth pattern in Russia, the recent growth in the restaurant market has been considerably faster in Moscow than in the rest of Russia, driven by higher levels of personal income in Moscow than in the rest of Russia.

Disposable Income per Capita by Russian Regions in 2006



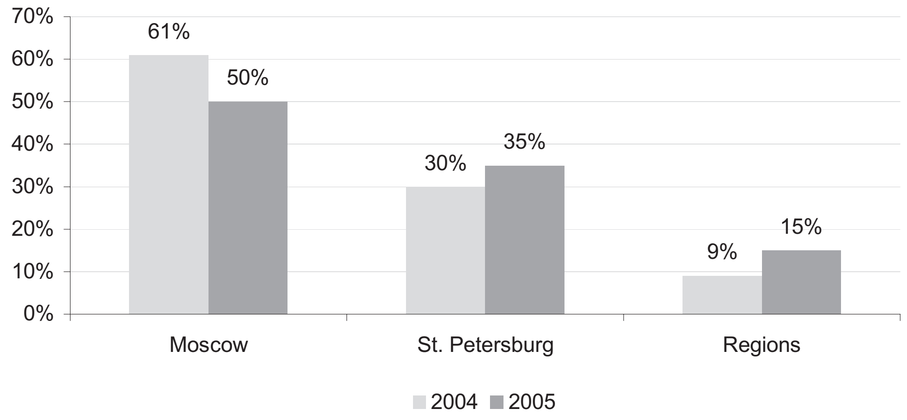
Source: Rosstat

Note: * — excluding Moscow

While lagging behind Moscow, the restaurant market in the Russian regions has started to catch-up with the general trends visible in Moscow and St. Petersburg, fueled by rising regional disposable incomes. However, restaurant development still remains focused on the larger regional cities.

A further boost for regional development is the increasing pressure on the availability of real estate in Moscow. According to Jones Lang LaSalle, a global real estate services firm, existing retail operators' demand outstrips supply of high quality retail space in Moscow by two-to-one. The lack of construction space encourages developers of commercial space to develop in the regions and, hence, creates a supply of restaurant opportunities.

Floor Space Supply to Demand in Shopping Centres by Regions, 2004-2005



Source: Jones Lang LaSalle

Competition in the casual dining segment

Competition is mostly developing within the casual dining segment as a whole rather than within categories specialising in particular cuisines (*e.g.*, Italian restaurants or Japanese restaurants). Most casual dining restaurants do not clearly position themselves in terms of specific type of cuisine, so dishes of popular cuisines, such as Japanese or Italian, can be found at practically any restaurant as part of the main menu or an additional menu.

While the restaurant market in general and the casual dining market in particular remains very fragmented in Russia, there are a number of operators that may be regarded as potential market leaders. As an indication, according to In-Depth, the five largest casual dining chains in Moscow (the largest market in Russia) had a combined market share of approximately 8.3% of the total local casual dining market in 2006 (in terms of the number of restaurants operated).

Most of the players that are operating in the casual dining segment are national or regional players. With the exception of the QSR segment, there is currently little penetration of international competitors, except for T.G.I. Friday's®, for which we hold the exclusive development rights in Russia and several other countries. See "Business — Property — Intellectual Property."

The following table summarises the market positions of major casual dining chains in Moscow in 2006, measured by number of outlets:

Market Shares of Moscow Casual Dining Restaurants by Number of Outlets in 2006

	Number of outlets[1]	Market share, % of CD segment	Market share, % of CD chains
Rosinter restaurants (including franchisees)	**76**	**3.5%**	**17.7%**
IL Patio	35	1.6%	8.2%
Planet Sushi	26	1.2%	6.1%
T.G.I. Friday's®	9	0.4%	2.1%
Novikov group	**38**	**1.7%**	**8.9%**
Elki-Palki	33	1.5%	7.7%
Lite Life	**28**	**1.3%**	**6.5%**
Tanuki	13	0.6%	3.0%
Taras Bulba	13	0.6%	3.0%
Vesta Centre International	**20**	**0.9%**	**4.7%**
Yakitoriya	18	0.8%	4.2%
Kruzhka	**20**	**0.9%**	**4.7%**
RP-COM	**13**	**0.6%**	**3.0%**
Kolbasoff	6	0.3%	1.4%
Goodman	4	0.2%	0.9%
Espresso & Cappuccino Bar	**9**	**0.4%**	**2.1%**
Asia café	9	0.4%	2.1%
Brothers and Co	**7**	**0.3%**	**1.6%**
Viagio	5	0.2%	1.2%
Casual dining chains	**429**	**19.6%**	**100.0%**
Total casual dining	**2,188**	**100.0%**	

(1) The number of our restaurants in the research by In-Depth excludes our restaurants in the Moscow region and only includes casual dining restaurants.

Source: In-Depth

According to In-Depth, with our Il Patio and Planet Sushi brands, we are the leading restaurant operator in the casual dining segment in Moscow by number of restaurants (a 17.7% market share of the total chain casual dining restaurants in 2006 (taking into account franchised outlets)).

We believe that our most direct competitors are other chains such as:

- *Elki-Palki* — a chain of traditional Russian cuisine restaurants owned by the Novikov group. The menu mostly includes traditional Russian food. The interior is decorated in Russian folklore style, displaying elements of a Russian hut, such as benches, wooden tables, chairs and stoves. This differs greatly from 1-2-3 Café, which has a more modern atmosphere. The price level is lower than for 1-2-3 Café and Sibirskaya Corona and brings Elki-Palki closer to the fast casual segment.

- *Yakitoriya* — a chain of casual dining Japanese restaurants. The menu includes more than 160 dishes of Japanese cuisine — sushi, rolls, small barbeques and other traditional Japanese dishes. The price level in Yakitoria is lower than in Planet Sushi; however, the size of the dishes is smaller as well.

- *Tanuki* — a chain of casual dining Japanese restaurants. The menu includes salads, ravioli, barbeque, rice and noodle dishes, while sushi and rolls are less represented. Tanuki restaurants boast rich interiors in traditional Japanese style. The price level is approximately equivalent to Planet Sushi.

- *Taras Bulba* — a chain of Ukrainian cuisine restaurants. The menu is based on traditional Ukrainian food — borsch, bacon, fried sausages, salad and other dishes typical of Ukrainian cuisine. The interior is stylised to resemble a Ukrainian hut: there is a stove in each restaurant and house utensils on the shelves. The waiters wear Ukrainian national clothes.

In the regions, the market is even more fragmented. While there is little reliable market data available, we consider the following major regional chains to be our competitors: Food Master (with the “Zhili-Byli” (“Once upon a time”) and “Vilka Lozhka” (“Fork and Spoon”) brands), New York Pizza (“New York Pizza” brand), Master Food (“Yem Sam” (“I am eating by myself”) brand), RestUnion (“Tsuru” and “Casa mia” brands).

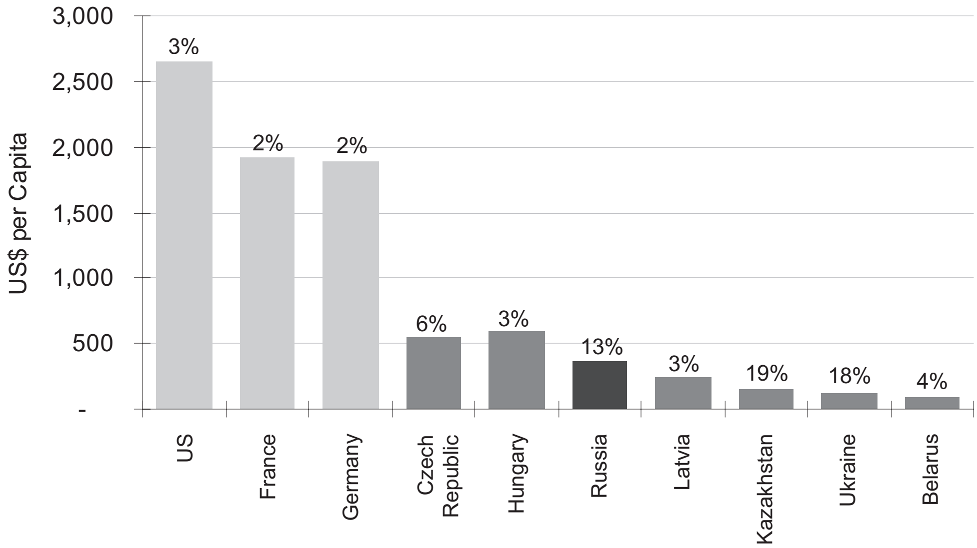
Restaurant market in Ukraine, Belarus and Kazakhstan

The trends that drive restaurant growth in Ukraine, Belarus and Kazakhstan are similar to those in Russia but trail development of the Russian market, especially with respect to Ukraine and Belarus due to lower living standards (See “— Introduction”). The culture of eating-out is still relatively weak but this is starting to change, especially in the cities with a higher concentration of high- to middle-class incomes.

The Ukrainian, Belarusian and Kazakhstan economy showed positive GDP growth rates of 7.0%, 9.9% and 9.3%, respectively, in 2006, according to Euromonitor.

According to Euromonitor, the restaurant industry in Ukraine, Belarus and Kazakhstan grew from 2002 to 2005 at a CAGR of 18 to 20% in nominal U.S. dollar terms. Growth in 2005 was 19%, outperforming overall consumer expenditures on food and beverages, which rose by 16%.

Growth in Disposable Income per Capita by Countries from 2005 to 2006



Sources: EIU, Rosstat

According to Euromonitor, the presence of restaurant chains in these markets remains limited, and, with the exception of the QSR segment, the market is dominated by independent outlets.

An increase in the number of chains (both local and foreign) in segments other than QSR is expected, mainly driven by the operators’ ability to offer high quality food, standardised menus and a high level of service. It is expected that in the mid- to long-term restaurant chain will squeeze the market share of independent players in practically all of the sub-segments (with the exception of fine dining).

Restaurant market in Central Europe (and the Baltics)

Besides growing prosperity and rising disposable incomes, the accession of the Central European countries (and the Baltics) to the European Union has stimulated the development of the new-style restaurant industry and the eating-out culture in general. It also boosted the investment of international players and has generated greater competition. The growing popularity of Central Europe (and the Baltics) as a tourist destination has also made an important contribution to the increase in restaurant demand.

According to Euromonitor, the restaurant industry in Central Europe (and the Baltics) grew from 2002 to 2005 at a CAGR of 7% in nominal U.S. dollar terms.

Traditionally, popular full-service restaurants are the largest segment in these markets and are dominated by independent players. Chain operators, especially those active in the QSR segment, are growing at the fastest rates across Central Europe (and the Baltics), both in number of outlets and sales. Global players, such as McDonald's, KFC, Burger King, Pizza Hut and Wendy's, are market leaders in the region in addition to local players in some countries.

Nonetheless, the restaurant market is still highly fragmented. According to Euromonitor, the top 10 players account for less than 10% of the market both by number of outlets and by sales in Hungary, Slovakia and the Czech Republic. This low level of market dominance indicates a large opportunity for consolidation and growth by chain operators.

Real estate for restaurants is generally available at relatively affordable prices compared to Moscow, but good quality locations are difficult to find. As major retailers are now moving outside the capitals and large cities, restaurant chains are set to follow this trend.

BUSINESS

Overview

Operating 192 restaurants, featuring some of the most recognised brands in Russia and benefiting from experienced management, we are the leading casual dining operator in Russia and the CIS. According to a research report by In-Depth prepared for us, as of 31 December 2006, we had the largest market share by number of restaurants and revenue of all casual dining operators in Moscow.

From 15 restaurants as of 31 December 1996, when we opened our first regional restaurant, we have grown to 192 restaurants located in 23 cities in Russia, the CIS and Central Europe (and the Baltics). We own most of our restaurants (154 restaurants), but we also enter into franchise arrangements (with 38 restaurants operated by 13 franchisees) (all restaurant figures in this "Business" section are as of 1 May 2007 unless otherwise specified). In 2006, we served approximately 12.5 million guests, on average more than 34,000 guests each day. Our revenue for the year ended 31 December 2006 was US$218,626 thousand compared to US$165,712 thousand for the year ended 31 December 2005. At 2006 year-end, we had approximately 7,500 employees.

We have restaurant concepts covering each of the four most popular cuisines in Russia and the CIS: Italian, Japanese, American and Russian. Our IL Patio and Planet Sushi brands, which we established, developed and promoted, are the second and third most-recognised casual dining brands in Moscow, according to a report prepared for us by In-Depth in 2006. Our IL Patio restaurants (67 restaurants) feature Italian cuisine in a casual contemporary setting while our Planet Sushi restaurants (60 restaurants) offer Japanese cuisine in a soothing Asian atmosphere. Under an exclusive franchise arrangement, we operate 17 T.G.I. Friday's® restaurants in Moscow, Omsk, Minsk, Kiev, Riga, Prague and Budapest. Across six cities in Siberia and the Urals region, we operate 13 Sibirskaya Corona (Siberian Crown) beer restaurants serving Russian cuisine under a licence agreement with Sun InBev, which owns the Sibirskaya Corona trademark. In December 2005, we successfully launched a new restaurant concept: 1-2-3 Café, providing traditional Russian food in a contemporary atmosphere. We also have operations in the Czech Republic, Hungary, Latvia, Belarus, Ukraine and Kazakhstan, operate other restaurant brands including Moka Loka and American Bar and Grill and own two fine dining restaurants in Moscow (Santa Fe and Café des Artistes).

Our founder, Rostislav Ordovsky-Tanaevsky Blanco, started our business in 1990 and remains our principal beneficial shareholder and chairman of our board of directors. Our CEO, Lori Daytner, first joined us in 1992 and assumed her current position in September 2006.

Our strategy is to continue to expand by both corporate development and franchising, while maintaining the level of good, mid-priced food and efficient, friendly service that our customers have come to expect. We vigilantly maintain quality control at all our restaurants so as to maintain our reputation for good food served in a pleasant, clean environment. We believe that this commitment, supported by marketing activities that are comparable to other leading international casual dining companies (as percentage of revenue), has built our brands and will help fuel our future growth. Our expansion is targeted to meet the demand of the burgeoning middle-class in Russia, particularly through corporate and franchise restaurants in Moscow, through corporate restaurants in cities in Russia and the CIS with more than 500,000 inhabitants, through franchise restaurants in cities with more than 350,000 inhabitants and through both corporate and franchise restaurants in Central Europe (and the Baltics). We plan to increase the number of locations using our established restaurant concepts via corporate development and active franchising and to pursue differing formats for our existing brands, in particular in locations at or near transportation infrastructure, such as airports and train stations, and at or near shopping malls and office complexes. Drawing on our past experience, we believe we have particular skill in identifying good locations for new restaurants: good location is generally one of the most important elements of a restaurant's success. We may also pursue growth through acquisitions of comparable businesses.

Competitive Strengths

We believe that the following strengths have contributed to our success and will continue to be competitive advantages for us, supporting our strategy and contributing to improvements in our financial performance.

Leading casual dining business in Russia and the CIS

We are the leading casual dining business in Russia and the CIS, operating, as of 1 May 2007, 192 restaurants located in 23 cities in Russia, the CIS and Central Europe (and the Baltics).

According to a report prepared for us by In-Depth, in 2006, we had the largest market share by number of restaurants among casual dining operators in Moscow. We also have the widest coverage in Russia and the CIS of any casual dining operator as measured both by number of cities served and by number of outlets (and IL Patio and Planet Sushi have the widest coverage in Italian and Japanese outlets, respectively, in Russia and the CIS). We have established some of the most recognised brands in Moscow, where IL Patio and Planet Sushi are the second and third most-recognised brands in the casual dining segment according to a report prepared for us by In-Depth. Our economies of scale and our experience in highly competitive markets allow us to maintain high levels of efficiency and provide competitive value to our customers. We invest in our restaurant locations to ensure they are attractively designed, built with high quality, durable materials and located in areas of high consumer traffic.

Well positioned in high-growth markets

We are well placed to take advantage of the continued rapid growth in the CIS restaurant market and operate in one of the most dynamic segments of the CIS restaurant market — casual dining. According to Euromonitor, Russian restaurant market sales volume grew at a CAGR of 8.8% from 2002 to 2006 reaching US$10.1 billion in 2006. These increases were driven largely by growth in household disposable income and the increasing popularity of eating-out. Nevertheless, per capita restaurant sales in Russia, at US$66 per capita in 2005, remain well below levels in developed countries, US$1,349 in the United States, US$884 in France and US$329 in the Czech Republic, which we believe suggests potential opportunities for further market growth, in particular in serving the growing middle class in Russia and the CIS.

Established regional platform for further growth

While most of our restaurants are in Moscow, we have long pursued operations across Russia and the CIS, having opened our first Russian regional restaurant in Omsk (in Siberia) in 1996 and our first CIS restaurant in Minsk in 1994. As of 1 May 2007, we had 44 restaurants in 13 Russian regional cities and 27 restaurants in five cities in Belarus, Ukraine and Kazakhstan. Creating this regional network has provided us with important practical experience on which to draw when exploring further expansion and provides us with an established platform for further expansion in the Russian regions and other CIS countries. In many cities, we were the first to implement a modern casual dining format and modern service standards, and we believe that such a first-mover advantage has assisted us in creating a strong base of loyal customers. We also believe that our strong presence in regional markets positions us to capitalise on the anticipated growth in consumer spending from expected increases in the level of disposable income of customers in these regional markets from their current low levels. See "Restaurant Industry in Russia, CIS and Central Europe (and the Baltics)." Having been since 1997 a franchisee of T.G.I. Friday's®, we have adhered to international standards of business conduct and management of our franchising network. This experience has allowed us to establish a strong platform for franchising our own brands and become the first Russia-based franchisor in QSR in the CIS (with the Rostik's brand in 1998), followed by franchising casual dining brands in 2003. We have been successfully using our internally developed systems to attract, retain and support franchisees in our main market (Russian and the CIS), and we believe that we will be successful in rolling-out franchise operations across the Russian regions, the CIS and Central Europe (and the Baltics) as well as in entering new markets.

Scalable business model

We believe our rapid expansion across large geographical areas is the result of a flexible and scalable business model implemented by skilled management. We believe we have established a knowledgeable balance between providing our local teams with a relatively high degree of control in their local market within a framework of approved strategies and plans, while providing uniform policies and centralised support in key areas such as operations, marketing, finance, human resources, information technology, accounting and reporting. Our organisational structure and business processes are specifically designed for regional growth, and our management has demonstrated skills in monitoring and developing simultaneously operations in multiple markets. We also place great emphasis on our Hub Cities regional headquarters, which offer marketing support, operational knowledge and training facilities to support regional corporate and franchise growth and allow greater scalability and an opportunity to replicate our previous success far from our Moscow headquarters. The scalability of our business model allowed us to achieve rapid growth in our operations. From 15 restaurants as of 31 December 1996 when we opened our first regional restaurant, we have grown to 192 restaurants as of 1 May 2007 located in 23 cities in Russia, the CIS and Central Europe (and the Baltics). Our restaurant operations are highly systematised, which we believe provides us with operational benefits and lowers costs, particularly in opening new locations and training new employees as we expand.

Leading portfolio of brands and ability to develop new leading brands

We established and developed some of the most well recognised casual dining brands in Moscow, and our brands have wide geographical coverage in the Russian regions and the CIS. Our brands target primarily the burgeoning middle-class. IL Patio and Planet Sushi are the second and third most-recognised casual dining brands in Moscow, with 89% and 78% aided awareness (*i.e.*, recognised by the respondent when prompted by the name), according to a report prepared for us by In-Depth in 2006. Our brands have won multiple awards in Russia, including the EFFIE Brand of the Year (2004 and 2006) and Brandbuilding Award (2006). Furthermore, our brands have been successfully tested and rolled out in a number of markets in the CIS and Central Europe (and the Baltics).

We have extensive experience in developing and enhancing restaurant brands in Russia and the CIS. Our record of brand development includes:

- Creating our well-recognised proprietary Core Brands — IL Patio and Planet Sushi — as well as our spun-off Rostik's brand;
- Successful rebranding of Patio Pizza into IL Patio in 2004, which allowed us to move from the lower pizzeria segment with high competition to a higher level, gain a competitive advantage, distinguish ourselves from our competitors, and realise the increased revenues;
- Successful launch of new restaurant brands, such as Sibirskaya Corona restaurants in December 2000 and 1-2-3 Café in December 2005; and
- Acting under exclusive licensing arrangements: (i) as the Russian/CIS/Central European (and the Baltics) franchisee of T.G.I. Friday's®; (ii) as the Russian regional licensee of Sibirskaya Corona; and (iii) as the licensee for Benihana of Tokyo in Russia and the CIS.

We are focused on the most popular cuisines in Russia (Italian, Japanese, American and Russian), which complement each other and address similar demographic profiles. In addition, our brand portfolio, high brand awareness and recognition among customers create the critical mass we believe is necessary for successful mass media advertising across a wide geographical area.

Operating efficiencies brought by multiple brand portfolio business model and scale of operations

We believe we benefit from significant opportunities to leverage our increased scale in order to increase revenue and operational efficiencies, reduce costs and maintain a long-term competitive advantage, such as to:

- Accelerate our development by serving simultaneously several popular cuisines in a given market and allowing us to open locations that offer a combination of branded casual dining restaurants in one location with a common kitchen, "back-of-the-house" operations, management and staff (which we refer to as "**Combos**" when two branded restaurants are co-located and "**Multibrands**" when more than two branded restaurants are co-located). Such locations allow us to increase efficiencies and achieve savings in labour, rent and capital expenditures compared to stand-alone restaurants;
- Diversify risk so that the consequences of a downturn or saturation in one type of cuisine should be mitigated and ensure one brand per significant cuisine in which we have identified growth potential;
- Obtain higher volume discounts from major suppliers and optimise the use of supply chain resources;
- Maintain a talented pool of highly qualified specialists in corporate support functions attracted to the opportunities of a larger, multi-faceted business;
- Perform field surveys and develop loyalty programmes that increase our consumer insight; and
- Gain a competitive advantage in securing important real estate locations as we have an enhanced capacity to acquire multiple properties as well as bigger properties where we can use Combos and Multibrands.

Experienced and professional management team and international standards of operations

Our management team has a detailed knowledge of and experience in the Russian and the CIS restaurant market and provides us with the skills required to implement international best practices and growth strategies. Many of our key managers have been involved in the development of our business since its inception, including those who received their training with us, and our management successfully led us through the 1998 financial crisis in Russia. We use the staff and facilities in our Hub Cities to maximise the ability of our management to direct operations and locations far from our headquarters. We also incorporate the following international best practices into our operations and development strategies:

- *Site selection:* We have developed site selection processes based on international practice enhanced by our local knowledge that evaluates multiple factors including traffic counts, sales generators, market conditions and investment costs analysis.
- *Brand standards:* Our brand building and operational standards for each brand are well documented to ensure ease of introduction to new markets and locations and simplify ongoing monitoring of new markets or locations, as well as to facilitate and support our franchise operation roll-out.
- *Operations Monitoring:* Our operational results are monitored using specific operational and financial Key Performance Indicators (the "**KPIs**") at restaurant, brand and senior management level.
- *Finance:* We maintain our financial and operational information according to international restaurant business market practices and have been reporting in accordance with U.S. GAAP for twelve years and recently with IFRS.
- *Training:* Our training systems are comprehensive and incorporate international best practices and are offered through our in-house training centres in our Hub Cities.
- *Career Path:* We offer outstanding opportunities for career progression in an expanding company to all line managers and employees.
- *Marketing:* We have experienced marketing personnel and systems to maintain our competitive edge, build our brands awareness, strengthen the loyalty of our customers and support our operational decisions.
- *Loyalty Programme Partners:* One key result of our aptitude to embrace best international practice has been the development of a coalition loyalty programme, MALINA™, with like-minded corporate partners, including the oil and gas company TNK-BP, the mobile telephone company Vimpelcom (operator of Beeline), the grocery chain Ramstore, the pharmacy chain 36.6, Raiffeisenbank and the perfumery chain Ile de Beauté (having agreed to join the programme on 1 June 2007).

Business Strategy

Our long-term objective is to strengthen our position as the leading casual dining operator in Russia and the CIS. To promote that objective, we strive to anticipate and satisfy the needs of our customers — in particular, the burgeoning middle-class population in Russia and the CIS — and otherwise to implement measures to grow our revenue and maximise our profits over the long-term. The five key components to our business strategy are:

- Increasing market penetration of the Core Brands in existing markets while also selectively expanding into new markets;
- Growing our new brands and developing new restaurant formats that leverage our existing brands in the casual dining sector, taking into account new business opportunities arising from the modernisation of transport facilities in Russia and the CIS and the development of shopping and entertainment centres and office complexes;
- Strengthening customer loyalty and brand awareness;
- Continuing to improve profitability and operational efficiency through cost management, combined-restaurant locations (Combos and Multibrands), franchising and good labour practices; and
- Expanding through opportunistic, site-driven acquisitions of restaurant networks.

Increasing market penetration of Core Brand restaurants in existing markets and selective expansion into new markets

The growth of our business reflects the growth of a middle-class population in Russia and the CIS that, given their disposable income, is inclined to dine at our various restaurants. This burgeoning middle-class population was first apparent in Moscow, and satisfying the Moscow market has been a priority for us. A majority of our restaurants are located in Moscow: 107 out of 192 restaurants, or 56%, as of 1 May 2007. At the same time, we have always been cognizant of opportunities outside of Moscow in regional Russian cities as well as opportunities in Belarus, Ukraine and Kazakhstan, having opened, for example, a restaurant in Minsk (the capital city of Belarus) in 1994 and in Omsk (in Siberia) in 1996. In recent years, an emergent middle-class population has become more apparent in Russian regional cities and also in the main cities of Belarus, Ukraine and Kazakhstan.

In light of these demographic trends, we expect to both penetrate more deeply our existing markets and expand selectively into new markets. We do not view the Moscow market as saturated, and we believe there is still significant growth potential in the casual dining segment in Moscow. We continue to seek good new locations in Moscow, especially in high-traffic areas.

As for Russian regional growth, as of 1 May 2007, we have 44 restaurants in 13 Russian regional cities. We choose Russian regional cities based upon our belief that each of these cities has the potential to support 10 or more restaurants in the coming years. More broadly, we are considering expansion opportunities in Russian and CIS cities with a population of at least 350,000 people (of which there are 46 cities in total, including the 19 in which we already operate) so long as we can identify promising site locations and the local business environment is conducive to our business. In carrying out further expansion in Russia and the CIS, we plan to emphasise franchised operations in the smaller markets and to emphasise corporate operations (whether wholly-owned or, in some cases, through regional partnerships) in the larger markets, as well as to continue growing our franchise operations in Moscow. In the Russian regional cities and the CIS, we seek to emulate the leadership position we have in Moscow by addressing the needs of a growing and wealthier middle-class that demands a variety of consistent and high quality dining experiences at affordable prices.

In Central Europe (and the Baltics), where we currently operate five T.G.I. Friday's® restaurants in various cities in the Czech Republic, Hungary and Latvia, we plan to focus on expanding our T.G.I. Friday's® franchise in those cities and other large cities (population in excess of one million persons), especially targeting locations in shopping malls and office complexes. We believe we can leverage the T.G.I. Friday's® brand, which is better recognised in Central Europe than our own proprietary brands, and grow our proprietary brands by co-locating T.G.I. Friday's® restaurants with IL Patio and Planet Sushi restaurants in Combos. As of 1 May 2007, we have opened 5 Planet Sushi and 4 IL Patio outlets in Central Europe (and the Baltics).

We manage our expansion carefully. For each city where we operate, or plan to operate, we establish a detailed five-year "**City Market Plan**," *i.e.*, a business development plan, which we update annually. Each City Market Plan includes a set of target locations for new restaurants, an assessment of the competitive environment in the local restaurant business, an evaluation of the expected evolution of the local economy and the future development plan for that market. We have a corporate development team in our regional business unit at the headquarters level and local development teams in regions in which we currently operate or plan to operate corporate restaurants, overseen by the relevant regional general directors. We also have a centralised regional franchise development team focused on fulfilling our expansion goals for franchise restaurants. We believe that we manage our expansion efficiently: approximately 95% of our restaurants that have been open for more than one year as of 1 January 2006 operated at a profit in 2006. Across all markets in which we currently or plan to operate, we constantly review our ownership mix of corporate and franchise restaurants in order to maximise our growth and operational efficiency.

In anticipation of further regional growth, we have designated certain cities in which we operate as Hub Cities. Small management teams in each of our Hub Cities are tasked with running training centres, providing management oversight and monitoring quality control in the Hub City and surrounding cities. Our current Hub Cities are Moscow, Novosibirsk, Omsk, Kiev, Almaty and Prague. We plan to add Yekaterinburg and Samara in the second half of 2007 and Rostov-on-Don in 2008.

Leveraging our existing brands through new restaurant formats and growing new brands

We plan to develop our newer brands and leverage our existing brands by using new restaurant formats, taking into account transportation infrastructure.

In December 2005, we introduced our 1-2-3 Café brand. Since then (through 1 May 2007), we have opened a total of three 1-2-3 Café restaurants and plan further restaurants in Russia's Central and Southern Federal Districts. We decided to pursue the 1-2-3 Café concept because our analysis of Moscow market studies indicated that there is still significant potential to develop a restaurant concept serving traditional "home-style" Russian food.

In 2006, we also put renewed emphasis on growing our Sibirskaya Corona restaurant concept, which uses a popular beer trademark for which we entered into an exclusive licence in 2002 (having launched the concept in 2000). In 2006 and 2007, as of 1 May 2007, we opened a further 5 Sibirskaya Corona restaurants, bringing the total to 13 restaurants. We are now pursuing plans to expand the Sibirskaya Corona brand outside Siberia to other Russian regions. In the remainder of 2007, we aim to open Sibirskaya Corona restaurants in St. Petersburg (Pulkovo Airport), Perm, Tyumen and, under a franchise agreement, Omsk and, in 2008, in Novosibirsk and Yekaterinburg.

We are also seeking to use new restaurant formats that leverage our existing brands, in particular formats designed to satisfy travellers and commuters using transport facilities, such as airports, highways, trains and bus stations. Much of the transportation infrastructure in Russia and the CIS is in poor condition; furthermore, Soviet-era transportation emphasised a utilitarian design and not consumer amenities such as casual dining restaurants. Accordingly, the modernisation of transportation infrastructure should provide us with opportunities to establish new locations to serve an under-serviced market. One example of this approach was our 2003 opening of a T.G.I. Friday's® restaurant in Moscow International Airport (Sheremetyevo II) using an abbreviated menu and an overall layout and service plan designed to provide faster service (it is our busiest location in terms of customers served). In 2007, we opened Planet Sushi and Moka-Loka (a coffee shop) in St. Petersburg International Airport (Pulkovo). We are also considering further sites within shopping and entertainment centres and office complexes similar to our existing locations in the popular Atrium and Evropeysky shopping malls in central Moscow.

Strengthening customer loyalty and brand awareness

Our brands IL Patio and Planet Sushi are the second and third best known casual dining brands in Moscow (after Elki-Palki, a traditional Russian brand) with 89% and 78% aided awareness, respectively, according to a report prepared for us by In-Depth in 2006. Throughout Russia and CIS, brand loyalty and awareness have increased and we aim to continue to build our brands.

We believe our future success in developing our Core Brands depends on several factors:

- first and foremost, maintaining our reputation for good, mid-priced food and efficient, friendly service;
- regularly introducing new, good-value menu items, effectively marketed;
- carrying out customer loyalty programmes such as the MALINA™ and the Honoured Guest Programmes ("**HGP**") (see "— Marketing — Loyalty Programmes");
- effective advertising, such as our recent TV campaign in Moscow promoting the IL Patio brand (see "— Marketing — Advertising Strategy").

Continuing to improve profitability and operational efficiency

We seek to improve our profitability and operational efficiency through a steady focus on the following areas:

Cost of goods sold: In 2006, we created the R&D Department to support building sales and optimising our gross margins (revenue less cost of goods sold). The main tasks of the R&D Department are to:

- Research innovations to be included on the menus of our restaurants and develop recipes of new food and drink items that can be implemented in large scale with the most modern technologies maximising efficiencies;
- Develop and update our Approved Products List ("**APL**") for the menu for each brand. Through the APL, we aim to reduce the number of our total ingredients thereby enhancing economies of scale and enabling us to optimise our suppliers list;
- Take advantage of product seasonality to promote new menu choices, which can attract customers and lower costs (adding especially popular items to our ongoing menu);

- Evaluate use of supply-outsourcing opportunities that increase restaurant space and labour productivity, such as through the use of central commissaries in large markets which prepare in bulk items such as soups and sauces for use at our restaurants; and
- Analyse preparation times and processes with a view to optimise preparation and to ensure consistency of product.

We plan to upgrade our purchasing strategies to achieve higher economies from our current scale of operations (See "Restaurant Operations — Restaurant management and monitoring — Purchasing") and further train our restaurant managers to focus on savings in food costs through inventory management and food preparation.

Joint brand locations: We have developed 16 locations that are Combos or Multibrands (usually Combos containing a Planet Sushi with either an IL Patio or a T.G.I. Friday's®). Nine of these joint brand locations are in Moscow, two are in the Russian regions, two are in the CIS and three are in Central Europe (and the Baltics). In light of the resources shared between the restaurants comprising each Combo or Multibrand, such locations promise a higher return on investment, a higher percentage of space for customer seating, reduced labour costs for each restaurant sharing the location and aid in lease negotiations due to the increased size of total space.

Franchise revenue: We expect to continue to develop our network of independent franchisees in Moscow and throughout Russia and the CIS and, in the medium term, in Central Europe (and the Baltics). Franchising allows us to grow more quickly with less direct investment and to pursue markets that we might not otherwise exploit on a corporate basis (particularly smaller markets) while also generating up-front franchise fees and ongoing royalty income.

Labour practices: Drawing upon our experience as a T.G.I. Friday's® franchisee, we are currently implementing policies for personnel staffing and management in our operations in Russia and the CIS to enhance operating efficiencies, such as:

- Directing managers to take a "hands-on" approach, working alongside restaurant staff;
- Cross-training employees to be able to perform multiple jobs;
- Changing workflows to improve operational processes;
- Monitoring person minutes per ticket KPI (an indicator which measures personnel efficiency in completing a guest's or group of guests' orders by calculating the number of minutes required in average to complete an order) for one or a group of restaurants.

Expanding through opportunistic, site-driven acquisitions

We believe that our organic growth may be positively complemented by opportunistic acquisitions in order to quickly increase the number of our restaurant locations, particularly in the Russian regions and the CIS, where the casual dining market is highly fragmented. To date, we have not made any significant acquisitions, but we constantly monitor opportunities in our key markets. Our focus is primarily on acquisitions that would allow us to quickly obtain multiple prime locations (leased or owned) in one or many of our target cities that could be efficiently converted into restaurant locations employing our Core Brands and could allow us to further leverage our excellent brand awareness and proven operational skills. Our preference is to grow the Core Brands we have developed, but we will consider acquisitions that include new brands that we may choose to exploit if they would complement our existing brand portfolio.

History and Development

In 1990, Rostislav Ordovsky-Tanaevsky Blanco, a Venezuelan national with Russian ancestry, opened one of the first restaurants in Moscow meeting western standards of quality and service. From that start, Mr. Ordovsky-Tanaevsky Blanco and our company have played an important role in the development of the casual dining segment and in the creation of a modern restaurant culture in Russia.

During the course of our development, we have sought to satisfy a variety of customer segments, including (1) fine dining (defined as restaurants providing full table service in which the average check per table is more than US$70), (2) casual dining (defined as restaurants providing full table service in which the average check per table is between US$20 and US$70), (3) coffee shops (defined as restaurants focusing on coffee, tea and desserts in which the average check per table is between US$10 and US$20) and (4) QSRs (defined as fast food outlets focusing on particular types of dishes, generally served wrapped without table service, in which the average check is below US$20). We operate two fine dining restaurants in Moscow, but these restaurants generate a relatively small part of our revenues.

In the QSR segment, until March 2006 our business included the Rostik's chain of chicken QSRs. From its start in 1993, we developed the Rostik's business under our proprietary brand into 97 outlets, including 54 franchised outlets, by March 2006. In March 2006, we launched a long-term strategic alliance with Yum! Brands, Inc., which owns and operates the KFC (Kentucky Fried Chicken) franchise, pursuant to which we agreed to develop our Rostik's QSRs under the co-brand ROSTIK'S-KFC and we spun-off our QSR business, except for the regional outlets of which seven were still owned by us as of 1 May 2007 and which we plan to separate from our business by the end of 2007.

The Company's subsidiaries are expected to continue providing some support services on arm's length terms to the spun-off Rostik's business. Although we expect the scope of such services to decrease over time, currently such services include legal, IT, security and general services as well as licensing and sanitation, accounting and reporting and HR administration. Currently, our management also continues to carry out certain administrative responsibilities for our spun-off Rostik's business under arm's-length service arrangements that are expected to expire by 31 December 2008.

Going ahead, we plan to focus on our core casual dining business. At the same time, we ultimately develop our business in light of our judgment of consumer preferences, growth potential across all dining segments, consumer cuisine preferences and ultimately the expected return on equity for any investment.

Set out below is a brief history of the development of our business:

1990: Opened our first restaurant in Moscow — El Rincón Español, near Red Square

1991: Opened Le Chalet fine dining restaurant in Moscow

1993: Opened first casual dining restaurant — Patio Pizza
Opened first QSR — Rostik's

1994: Opened Santa Fe, Café des Artistes and American Bar & Grill in Moscow
Opened first restaurant in the CIS (Minsk, Belarus) — El Rincón Español

1996: Regional expansion, opened first restaurants in Siberia (Omsk) — Patio Pizza, Rostik's

1997: Obtained development rights for T.G.I. Friday's® in Russia, Belarus and Ukraine
Opened first T.G.I. Friday's® in Moscow

1998: Launched first-ever restaurant loyalty programme in Russia — Honoured Guest Programme
Opened first franchise Rostik's in Moscow
Aired first television advertising campaigns for Rostik's

1999: Opened first Planet Sushi in Moscow
Obtained development rights for T.G.I. Friday's® in Baltic States (Estonia, Latvia and Lithuania) and Finland

2001: Obtained development rights for T.G.I. Friday's® in Austria, Czech Republic, Hungary, Slovakia and Slovenia
Obtained exclusive rights to open Benihana of Tokyo in Russia and the CIS

2002: Obtained exclusive licence for Sibirskaya Corona in Siberian and Far East Federal Districts of Russia
Opened first Moka Loka coffee shop in Moscow
Entered into Russian public debt market, with RR300 million bond issue

2003: Opened T.G.I. Friday's® in Moscow International Airport (Sheremetyevo II)

2004: Re-branded Patio Pizza using new brand name IL Patio
Opened first Combo restaurant complex containing two restaurant concepts in one location (IL Patio and Planet Sushi), located in Yurmala, Latvia
Completed second bond issue for RR400 million

2005:	Opened first 1-2-3 Café in Moscow Opened first Multibrand restaurant complex, containing four restaurant concepts in one location (T.G.I. Friday's®, IL Patio, Planet Sushi and 1-2-3 Café) Entered into the agreement on strategic partnership with Yum! Brands for exclusive development of ROSTIK'S-KFC in Russia and the CIS Completed third bond issue for RR1.0 billion
2006:	Launched MALINA™ — Russia's first multi-company coalition loyalty programme with partners Ramstore, Vimpelcom (operator of Beeline), TNK-BP and Pharmacy 36.6 Aired television advertising campaign for IL Patio Restyled Planet Sushi locations Launched Planet Sushi in the Czech Republic Entered into new Global Development Agreement with T.G.I. Friday's® covering 19 countries: Russia, Ukraine, Belarus, Kazakhstan, Estonia, Latvia, Lithuania, Austria, Poland, Czech Republic, Hungary, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro
2007:	Opened Planet Sushi, Moka-Loka and Sibirskaya Corona in St. Petersburg International Airport (Pulkovo) Entered into new exclusive licence agreement with Sibirskaya Corona covering an expanded area, including the cities of Tyumen, Samara, Togliatti, Sochi, Krasnodar, Kazan, Tobolsk, Perm, Ekaterinburg, St. Petersburg and Rostov-on-Don in addition to the Siberian and Far Eastern Federal Districts of Russia Planet Sushi introduced into Hungarian market at the site of an existing T.G.I. Friday's® (making it a Combo location) Opened T.G.I. Friday's® in Riga International Airport in new "on-the-go" format as the first worldwide franchisee of T.G.I. Friday's® certified to use this format Established the framework of our stock option plan whereby some of our employees will be entitled to compensation linked to the market price of our shares

Branding

Effective branding is very important to our business success. Accordingly, we have carefully cultivated our Core Brands: IL Patio, Planet Sushi, T.G.I. Friday's®, Sibirskaya Corona and 1-2-3 Café. Our branding model is based on three key factors that influence consumer preferences: menu, atmosphere and service. Our brand standards are updated regularly to anticipate trends and emerging consumer preferences.

We have brand books that provide standards for the use of our brands in all aspects of our business, including menu (approved menu formats and product lists), use of brand identification elements (applicable to all materials), construction (design and building of façade, "back-of-house" operations and front-of-house entryways) and service (all aspects of operations at all levels). We believe that each of our restaurants substantially conforms to the relevant brand image.

IL Patio

Our IL Patio brand features a menu of pizza, pastas and grilled meats, fish and vegetables with an emphasis on value-for-money pricing. The atmosphere at each IL Patio is created by intense, fire-spectrum colours, exposed brick walls with baroque design elements, bright lighting and flour and olive oil aromas. Service at IL Patio is generally provided by servers trained to be talkative and extroverted. The IL Patio concept was the result of the 2004-2005 re-branding of our Patio Pizza restaurants, in which we moved from an undifferentiated pizzeria concept to a more upscale Italian casual dining restaurant, which also gave us a significant advantage to move to a concept with higher growth potential. As a result of this transition, our average check per table and number of total customer transactions increased, resulting in increased restaurant revenues.

Planet Sushi

Our Planet Sushi brand features a menu of sushi, sashimi and traditional Japanese dishes. Occasionally, we also add on a limited basis some menu items from other eastern cuisines. At Planet Sushi, brown and beige colours, minimalist décor, exposed limestone and soft lighting contribute to a soothing, comfortable atmosphere. Service at Planet Sushi restaurants is generally provided by female, kimono-clad waitresses, trained to be reserved and respectful. In 2006, we re-styled Planet Sushi's logo, menu, service and interior design standards to be more sleek and modern.

T.G.I. Friday's®

Our T.G.I. Friday's® restaurants are in keeping with the global T.G.I. Friday's® brand. Filling appetizers, steaks and an extensive menu of high-quality, original cocktails figure prominently on its menu; serving portions are large. Its dark wood walls lined with sports and pop/rock memorabilia and its 70s-style bar area and lighting fixtures create a friendly, leisure-time atmosphere. Waiters and waitresses are dressed playfully and trained to be sociable.

Sibirskaya Corona

Sibirskaya Corona (Siberian Crown) restaurants evoke the well-known Russian beer brand having the same name. Centred on the beer experience, our restaurants feature mainly salads and grilled items with an emphasis on value-for-money pricing. The atmosphere replicates a pub revised with old-style Russian décor elements, where wood is the main material and green, brown and white are the dominant colours (in line with Sibirskaya Corona trade dress). A "mangal," a grill station where grilled items are cooked over a fire, is a focal point of the restaurants, spreading appealing aromas and warmth throughout the restaurant. Service tends to be provided by female waiters, who welcome guests as their neighbours.

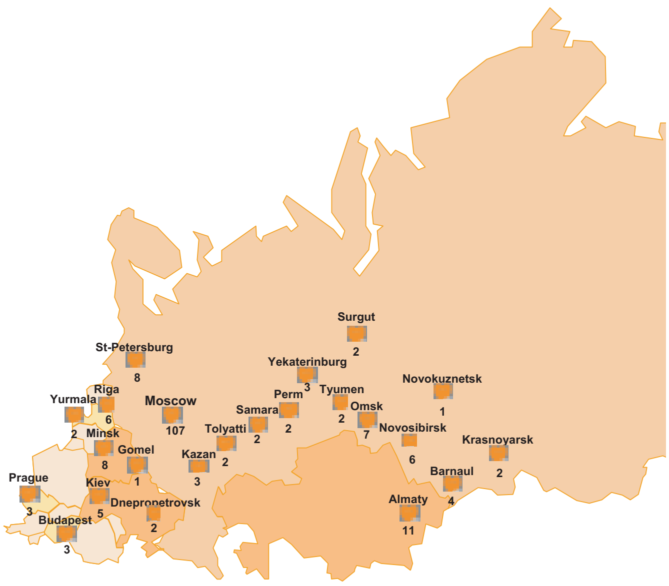
1-2-3 Café

Our 1-2-3 Café concept serves traditional Russian food such as soups, pelmeni, blini (pancakes) and other items that are staples of traditional Russian home-cooking in a contemporary, airy setting. The brand name alludes to this culture in that a traditional meal starts with a first course of soup, continues with a second course of salad and finishes with the main course, followed by traditional stewed fruit beverages. At 1-2-3 Café, these traditions are mixed with modernity. As a result, traditional food is served in a contemporary environment. Service is friendly and embedded in Russian traditions. Red is the signature colour of this energetic out-of-home eating experience.

Restaurant Operations

Restaurant locations

As of 1 May 2007, we operated 192 restaurants in 23 cities in Russia, the CIS and Central Europe (and the Baltics), 154, or 80%, of which are corporate restaurants and 38, or 20%, of which are franchise restaurants. "**Corporate restaurants**" are the restaurants that we own, either solely or together with our regional partners. "**Franchise restaurants**" are restaurants owned by independent entrepreneurs under the terms of franchise agreements with us. The following map shows the location and number of our casual dining restaurants in the countries and regions where we operate as of 1 May 2007.



The following table lists our existing restaurants by brands and regions as of 1 May 2007 and indicates the number of franchised restaurants:

	IL Patio		Planet Sushi[(A)]		T.G.I. Friday's®		Russian Cuisine[(B)]		Others[(C)]		Number of restaurants (by brands)	
	All	**Franch.**	**All**	**Franch.**	**All**	**Franch.**	**All**	**Franch.**	**All**	**Franch.**	**All**	**Franch.**
Russia												
Moscow[(1)]	41	16	32	14	9	—	3	—	22	2	**107**	**32**
Federal Districts:												
Volga[(2)]	4	—	3	—	—	—	—	—	—	—	**7**	**—**
Northwest[(3)]	2	—	2	—	—	—	1	—	3	—	**8**	**—**
Urals[(4)]	2	—	4	—	—	—	1	—	—	—	**7**	**—**
Siberia[(5)]	4	1	4	—	1	—	11	4	2	—	**22**	**5**
Belarus[(6)]	2	1	3	—	1	—	—	—	3	—	**9**	**1**
Ukraine[(7)]	3	—	3	—	1	—	—	—	—	—	**7**	**—**
Kazakhstan[(8)]	5	—	4	—	—	—	—	—	2	—	**11**	**—**
Czech Republic[(9)]	—	—	1	—	2	—	—	—	—	—	**3**	**—**
Hungary[(10)]	—	—	1	—	2	—	—	—	—	—	**3**	**—**
Latvia[(11)]	4	—	3	—	1	—	—	—	—	—	**8**	**—**
TOTAL	**67**	**18**	**60**	**14**	**17**	**0**	**16**	**4**	**32**	**2**	**192**	**38**

* Note: Table does not include ROSTIKS-KFC restaurants, but seven ROSTIKS-KFC restaurants were still owned by us as of 1 May 2007. See "— History and Development".

(A) Includes one Planet Sushi location, that is part of a Combo. Although the other half of the Combo is operating and the Planet Sushi is ready to open, the opening has been delayed until the necessary permits are obtained.

(B) Includes 1-2-3 Café in Moscow and Sibirskaya Corona in other cities. Includes four Sibirskaya Corona locations that are operated pursuant to a sublicence but one which we do not have the same level of control as over franchisees. In all discussions of numbers of restaurants in this "Business" section, these locations are included in totals as franchisees.

(C) Includes American Bar and Grill, Moka Loka, Benihana (currently under reconstruction and expected to reopen by the end of 2007), Santa Fe, HippoClub, Café des Artistes, El Rincón Español, Pechky-Lavochky and corporate catering cafes.

(1) Moscow (including its surrounding region, or oblast)

(2) Currently in Kazan, Samara and Togliatti

(3) Currently in St. Petersburg and Pulkovo airport

(4) Currently in Yekaterinburg, Perm and Tyumen

(5) Currently in Novosibirsk, Barnaul, Omsk, Novokuznetsk, Krasnoyarsk and Surgut

(6) Currently in Minsk and Gomel

(7) Currently in Kiev and Dnepropetrovsk

(8) Currently in Almaty

(9) Currently in Prague

(10) Currently in Budapest

(11) Currently in Riga and Yurmala

The following table shows the historical growth of all restaurants, including franchised restaurants where applicable, by regions for the past five years and as of 1 May 2007.

Total Restaurants By Area as of 31 December 2002-2006 and 1 May 2007

	31 December										1 May	
	2002		2003		2004		2005		2006		2007	
	All	Franch.	All	Franch.	All	Franch.	All	Franch.	All	Franch.	All	Franch.
Russia												
Moscow	28	1	46	3	67	11	87	16	100	27	107	32
Federal Districts:												
Volga	—	—	—	—	2	1	4	1	6	1	7	—
Northwest	3	—	3	—	3	—	3	—	3	—	8	—
Urals	—	—	1	—	1	—	2	—	7	—	7	—
Siberia	7	1	10	1	15	—	21	—	21	5	22	5
Belarus	3	—	4	1	7	1	7	1	8	1	9	1
Ukraine	2	—	2	—	2	—	4	—	7	—	7	—
Kazakhstan	3	—	6	—	8	—	8	—	9	—	11	—
Czech Republic	1	—	1	—	1	—	1	—	3	—	3	—
Hungary	1	—	1	—	2	—	2	—	2	—	3	—
Latvia	3	—	4	—	6	—	8	—	8	—	8	—
Austria	1	—	1	—	—	—	—	—	—	—	—	—
Slovakia	2	—	—	—	—	—	—	—	—	—	—	—
TOTAL	**54**	**2**	**79**	**5**	**114**	**13**	**147**	**18**	**174**	**34**	**192**	**38**

As indicated by the above tables, approximately 56% of our restaurants are in Moscow. Given that Moscow is the largest city in continental Europe and remains relatively under-serviced by casual dining restaurants, we expect to increase further the number of our restaurants in Moscow. At the same time, we are seeking to replicate our success in Moscow, where we believe we have a critical mass of restaurants, in Russian regional cities, the CIS and Central Europe (and the Baltics).

Corporate restaurants

We own, either wholly or together with our regional partners (who generally hold minority stakes) most of our restaurants, 154 out of 192 restaurants, or 80%, as of 1 May 2007. 58 of our corporate restaurants are operated by our regional partnerships in Russian regions and CIS and another 8 restaurants are operated by a regional partnership that we established in Latvia. In addition, in Moscow 14 restaurants have been operated under profit-sharing arrangements with our partners.

Regional partnerships and Moscow profit-sharing arrangements

In Russian regional cities, and in Belarus, Ukraine, Kazakhstan and Latvia we had historically entered into regional partnerships with local businessmen. We have usually found our regional partners able to provide valuable insight into local business conditions and opportunities for growth, as well as financing and administrative support. Some of our existing regional partnerships reflect relationships that the chairman of our board of directors and our principal beneficial shareholder, Mr. Ordovsky-Tanaevsky Blanco, formed in the late 1980s and early 1990s when he established a CIS-wide distribution network and 400+ store photography business for Kodak. Ultimately, we control all key aspects of our regional partnerships, including general management, operations, site selection, menu items, and promotional/marketing strategy.

Our regional partnership entities enter into franchise and licence agreements with us (usually with our subsidiary LLC Rosinter Restaurants), which give us assurance that they will maintain our standards and respect our intellectual property, and pursuant to which we receive a lump sum in the range of US$15,000+VAT to US$35,000+VAT, depending on the number of restaurants opened by such regional partnership, our ownership stake in it and our judgment on the proper amount relative to our projected growth in a particular market. We typically receive royalty payments of approximately 4% of gross revenues of such regional partnership restaurants, however, that figure is increased or decreased in certain cases based on our judgment of how best to promote our business. Since we primarily manage and co-own our various regional restaurants with our various regional partners, we do not consider or classify them as franchisees; references to "franchisees" in this Offering Memorandum are not to our regional partners but instead to our independent franchisees who hold no equity in our business. Pursuant to certain regional partnership agreements, our regional partners provide loans for the construction and outfit of our restaurants, in which case all our restaurant profit is allocated to the partner until the partner fully recovers the financing cost, following which restaurant profit or net profit of such regional partnership is distributed pro rata to shareholdings. In all other cases all net profit is distributed pro rata to shareholdings.

We have finalised our negotiations on the buy-out of our partners' stock from the regional partners in Belarus and Kazakhstan (who will be compensated by the Selling Shareholder with its shares) and Tyumen and Surgut (to whom we will pay in cash). Our regional partners in Belarus and Kazakhstan will retain a 10% equity stake in the partnerships, and net profit will be distributed between the partners pro rata to shareholdings. We have the option to buy-out these remaining equity stakes from our regional partners. As we expand into further Russian regional cities and CIS countries, we might consider establishing similar regional partnership arrangements, but our preference is to concentrate on expansion in these markets via wholly-owned corporate restaurants or franchise agreements.

None of our corporate restaurants in Moscow is operated under partnership arrangements whereby our partner takes an equity stake, but we have entered into arrangements that provided that our partners undertook funding of all costs and expenses in connection with the construction and opening of a new restaurant as well as, in certain cases, leasing and wage costs, and we agreed to obtain all necessary permits and authorisations required for opening a new restaurant, to operate such restaurant and incur all related maintenance costs, except for those mentioned above. Accordingly, generally 90% of restaurants free cash flow was directed to the partner until its investment was fully recovered following which the free cash flow was split between the partner and us, typically in proportions of either 50% and 50%, respectively, or 49% and 51%, respectively. In the past, those profit-sharing arrangements in Moscow enabled us to attract necessary investments for development and reduce operational costs and expenses. As of 1 May 2007, we notified all our partners in Moscow on termination of the profit-sharing arrangements except for three restaurants which remained to be operated under such arrangements.

Corporate restaurants operating under proprietary brands and franchised brands

Of the corporate restaurants, as of 1 May 2007, 128 corporate restaurants (83% of all corporate restaurants) operated under our own proprietary brands and 26 corporate restaurants (17% of all corporate restaurants) operated under T.G.I. Friday's® and Sibirskaya Corona brands.

We have exclusive development rights, expiring on 1 January 2012, to develop T.G.I. Friday's® restaurants in Russia, Ukraine, Belarus, Kazakhstan, in the Baltic States (Estonia, Latvia, Lithuania) and in Central Europe (Austria, Poland, Czech Republic, Hungary, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro). The key terms of our licence arrangements with T.G.I. Friday's® are as follows:

- Fixed consulting (franchise) fee per restaurant (depending on the size thereof), in each case less half of applicable taxes, and monthly royalty of certain percent of revenue (depending on the number of restaurants and years of operation).
- Modernisation of each restaurant at least triennially and semi-annual local advertising budget of 2% of restaurant revenues.
- Approval of new restaurant sites but not of restaurant closures.
- The rights may not be sublicensed but the licensee may be sold to third parties subject to evaluation of such third party and compensation of the evaluation costs by us.
- Termination of franchise arrangements at any time subject to compensation of termination costs.

We are using the Sibirskaya Corona brand under a licence from OJSC Sun Inbev that expires in 2009 and covers the Siberian and Far Eastern Federal Districts of Russia, as well as the cities of Tyumen, Samara, Togliatti, Sochi, Krasnodar, Kazan, Tobolsk, Perm, Ekaterinburg, St. Petersburg, Rostov-on-Don and other cities that may be from time to time agreed to by the parties. The key terms of our licence arrangements with Sibirskaya Corona are as follows:

- Annual fixed royalty payment per restaurant.
- Approval of new restaurant sites but not of restaurant closures.
- The right to provide sublicences is pre-approved by OJSC Sun InBev.
- Termination of licence arrangements at any time subject to payment of a fixed termination fee per restaurant if terminated by OJSC Sun InBev.

Franchise restaurants

As of 1 May 2007, our 13 independent franchisees operated 18 IL Patio, 14 Planet Sushi, four Sibirskaya Corona restaurants and two Moka-Loka cafés. Franchise operations provided US$2,913 thousand of our revenue (1.3% of total) in 2006. We franchised our first restaurant in 2003, when we entered into a franchise arrangement for an IL Patio restaurant (then doing business as Patio Pizza) in Moscow. In doing so, we drew upon our experience since 1998 in franchising Rostik's outlets (our chicken QSR business that we spun-off in 2006) and our own experience since 1997 as a franchisee of T.G.I. Friday's®. We view franchising as one of the most efficient means of achieving our growth and expansion goals while also generating franchise fee income. Our Moscow franchisee pool has further committed to 35 restaurant openings in the next 3 years. We also expect to expand franchise operations in the Russian regions and the CIS. As we implement franchising in the Russian regions, our current plan is generally to use franchising arrangements in the smaller cities and maintain corporate restaurants in the larger cities.

We have established a franchisee selection process, based on international franchising best practices and our internal experience. We assess candidates' business knowledge and skills, business planning capabilities, operational track record, local market position and reputation to determine the development capabilities of each potential franchisee. We conduct interviews and site visits to existing enterprises owned by franchisees and collect information on potential partners from independent sources such as market researches and reliable references. Franchisees sometimes operate other restaurants, but our franchise agreements limit franchisees' ability to operate competitor restaurants serving cuisines similar to our own while such franchise agreements are effective and two years following termination thereof.

Prior to entering into franchise agreements, we currently tend to enter into development agreements with our franchisees. Such agreements provide for deposit of initial franchise fee for each restaurant to be opened, which is retained by us if no restaurants are opened by our franchisee. In addition, we charge a lump-sum penalty of US$5,000 per restaurant for failure to comply with the restaurant roll-out schedule as stipulated by the development agreements.

Under the key terms of our franchise agreements, our franchise arrangements usually have a term of five years, subject to prolongation upon mutual agreement of the parties. Each franchisee pays an initial franchise fee (US$30,000 to US$50,000 for IL Patio and Planet Sushi) and monthly royalty fees equal to 6% of the gross revenue of each restaurant operated. In addition, franchisees may be required to make monthly contributions to our marketing efforts up to 5% of the gross revenue of each restaurant operated (based on the marketing budget for the relevant brand and announced at the beginning of each year) and allocate at least 1% of restaurant revenues to local marketing activities. We offer discounted upfront franchise fees if a long-term development commitment is signed or if warranted by a particular market.

Franchisees commit to complying with our brand standards in operating their franchise restaurants; in turn we license to our franchisees the site-specific right to use our intellectual property (including know-how, expertise, operating standards and trademarks). Furthermore, to facilitate development of our franchisees, we provide them with training materials that include construction guides, brand and marketing standards, training and operational standards and manuals as well as ongoing operational support. According to the terms of the franchise agreements, our franchisees participate in our loyalty programmes.

Our franchise agreements provide that we approve each site for franchised restaurants and the opening of each such restaurant for business upon completion of construction and outfitting and also provide us the right to inspect each location at any time. We may withdraw the license of any location that is operated in violation of our standards, as provided in our franchise agreements. Currently, we conduct operational audits of franchise stores at least quarterly.

New restaurants development

As part of our business strategy, we seek to increase our penetration in existing markets and selectively expand into new markets. See "— Business Strategy — Increasing market penetration of Core Brand restaurants in existing markets and selective expansion into new markets." To achieve this goal, we are continuously looking for good new locations for our restaurants. We have a central team of personnel committed to developing and opening new locations.

Good location is generally one of the most important elements for a restaurant's success. Accordingly, our procedure for the development of new restaurants begins with a detailed business case for a particular site that presents five years' projections with quantitative data (*e.g.*, traffic count, expected guest flow and average check) and qualitative criteria (*e.g.*, presence and business results of competitors and other retailers). Based on our existing portfolio experience, we have established (and we regularly update) the financial/operational profile of our best-performing outlets by brand and geography, and we extrapolate from this model the expected return on investment for new locations. Where feasible and economical, we especially pursue restaurant locations strategically located within or near transportation infrastructure that promise high turnover, such as metro stations, airports, train and bus stations and highways as well as within or near shopping malls, busy streets and office complexes. Upon preliminary approval, we perform detailed legal and technical due diligence, appropriately refining the business case as a result.

During the year ended 31 December 2006, we opened 24 new corporate restaurants (seven IL Patio, 10 Planet Sushi, three T.G.I. Friday's®, one 1-2-3 Café and three Sibirskaya Corona). These new restaurants, which were open for an average of five months during the year ended 31 December 2006, contributed an aggregate revenue of US$10 million and restaurant-level EBITDA of approximately US$1.9 million during that year. Based on recent experience and trends, management estimates that for 350 square meter restaurants in Moscow, the Russian regions and the CIS and 275 square meter restaurants in Central Europe (and the Baltics), the construction period for a new restaurant is six months on average and requires both capitalised and non-capitalised costs. Our budget for the development of new restaurants is based on average total costs to construct and equip a new restaurant that amount to approximately US$588,875 in Moscow, US$423,020 in the Russian regions and the CIS and US$353,750 in Central Europe (and the Baltics). Restaurant results are monitored by regular operational meetings. The run rate of a restaurant during the first year of operation is targeted at 80%. It usually takes 12 months for a restaurant to reach sales maturity. The average payback period for a restaurant varies from 36 to 40 months.

Restaurant maintenance

Our maintenance teams are responsible for managing ongoing refurbishment across all of our corporate restaurants in Moscow (maintenance is outsourced for other business units). Minor refurbishments are scheduled to take place regularly beginning approximately six months after opening a new location and are primarily directed at refreshing customer-facing areas of the location. Major refurbishments are planned to take place approximately two years after opening and include replacement of food preparation equipment, tables, chairs and full redecoration. We make exceptions to this schedule as necessary, such as where restaurant performance, local competition, the number of total refurbishments in progress or the actual condition of the location make refurbishment appropriate. In addition, we conduct painting and ongoing maintenance of our corporate restaurants on a regular basis.

Restaurant closures

Since 31 December 2001, we have modified the operations of a total of 26 corporate restaurants due to various reasons, including:

- to adjust our mix of corporate and franchise restaurants through sales of corporate restaurants to franchisees (seven restaurants);
- to pursue our cost-saving strategy through integration of separate restaurants in the same location into a Multibrand complex with shared kitchen, auxiliary space, etc. (four restaurants);
- to focus on the development of Core Brands in casual dining through transformation of existing non-core branded restaurants to restaurants using Core Brands (four restaurants), sale of non-core branded restaurants (one restaurant) and closure of non-core branded restaurants (eight restaurants);
- to increase profitability of our business, because we determined that a certain location was not suitable for a casual dining restaurant (one core-branded restaurant closed); and
- due to reconstruction of the Intourist Hotel in Moscow (one core-branded restaurant closed).

Performance review and quality monitoring

We review the performance of each corporate restaurant on a monthly basis using a variety of KPIs (*e.g.*, average transaction amount per person, total number of transactions, total staff time in minutes divided by total number of transactions ("**Person Minutes Per Ticket**"), and staff turnover), and we take corrective action, such as additional local marketing activities, if the results differ form the budgeted figures. We also have KPIs that we track on a quarterly basis, such as guest satisfaction scores and operational unit review scores. We compare and analyse operational indicators of our restaurants by reference to geographical clusters of comparable outlets so as to share best practices among our restaurants and enhance the results of low performing units.

For all our restaurants (whether owned or franchised), we have established strict standards and processes relating to food and beverage preparation, conduct of personnel, property management and purchasing and provide comprehensive introductory and ongoing training and supervision to monitor adherence to those standards.

Menu and food preparation

In order to ensure that we serve food with consistent quality at all of our restaurants, we apply comprehensive best practices to monitor all the steps of food delivery, from the creation and maintenance of the APL to supplier selection, menu item approval and the training of our cooks and staff.

We have a standard menu for each brand. In certain markets, our menus are adapted to allow for the use of more economical alternative ingredients or, in rare cases, to include popular items from local cuisine, subject to the approval by the brand executive. For example, in our Siberian IL Patio restaurants, iceberg lettuce is substituted for romaine lettuce in Caesar salads for reasons of economy. Usually, such variations, if any, do not exceed 10% of the menu items. At especially high-traffic restaurants, such as our T.G.I. Friday's® at Sheremetyevo International Airport in Moscow, we offer an abbreviated menu to facilitate quick guest turnover. Under the terms of our franchise agreements, our franchisees are entitled to propose variations in menu, however such variations may not exceed 10% of the menu items.

We give high priority to the development of new menu items for all our restaurant brands, for both food and beverage items. Product assortment is regularly revised: slow-moving items are dropped and new items are added in anticipation of consumer preferences. Menu standards are developed centrally, tested, and then introduced across all operations if successful in testing.

Pricing policy

Our pricing policy is generally based on marketing analysis, including analysis of customers needs and expectations and research on competitor and alternative dishes. Our marketing department evaluates a reasonable price range in light of cost of sales required for a particular dish. Our brands are differentiated in terms of prices: 1-2-3 Café is in the medium-low price segment of casual dining, IL Patio is in the medium price segment and Planet Sushi and T.G.I. Friday's® are in the medium-high price segment.

We have developed and implemented a data-driven approach to help determine the best pricing strategies in light of customer preferences. While achieving our overall pricing goals, we have also developed strategies to enhance the perception that our menus offer good value-for-money, such as selectively lowering prices on the most popular menu items below the pricing of our competitors in order to draw customer traffic, thereby creating a higher differential between the lowest and highest prices in each menu category and then encouraging customers to select the higher-priced choices.

Employees and training

As of 1 May 2007, we had approximately 7,500 employees, of whom approximately 5,200 were restaurant staff members, 950 were restaurant managers and 1,350 were corporate and support services personnel. As is the case with many casual dining businesses, we have a relatively high turnover in a restaurant staffing: our 2007 average to date is approximately 70% per annum, which we believe is similar to our international peers. Our workforce is not unionised and we have not entered into any collective bargaining agreements. Our staff is remunerated by a mixture of salary and tips (tips are not included in revenue or employee expenses); in particular, restaurant managers are remunerated by monthly salary and waiters, barmen, and hostesses receive a monthly salary and are additionally remunerated by tips. We employ some part-time restaurant personnel, the ratio of which to our full time personnel is dependent upon relevant labour regulations and practices of each market where we operate and in response to our efforts to improve efficiency and decrease cost of labour.

We have an experienced management team responsible for effective supervision of our restaurants' operations. Restaurant manager candidates, when chosen from our existing personnel, must complete a two-month in- and out-of-store training programme during which we instruct them in various areas of restaurant management, including food quality and preparation, hospitality techniques and employee relations. We also provide restaurant managers with comprehensive operations manuals. These manuals are designed to ensure uniform operations, high-quality service, high-quality products consistently prepared and served, and proper accounting for restaurant operations. In addition to this basic training, we provide restaurant managers with additional training while they are working so that they have the skill set we expect for a restaurant director. The total additional training takes as much as four months while the candidate simultaneously maintains all restaurant manager duties. We hold weekly meetings of our restaurants managers to discuss operational issues and to continue training in various aspects of business management. We also have staff training programmes that range in length from 30 days for general restaurant staff to 90 days for restaurant managers.

We train franchisees' core employees at training centres we have created in our Hub Cities and also provide new-store-opening teams ("**NSOs**") to support the opening and initial operations of new franchise restaurants. Large franchisees may have certified trainers in certain operational areas and may consequently conduct some of their own trainings in those areas.

To measure the performance of both general managers and the above-restaurant managers and directors, we use the KPIs; other measurements of customer satisfaction, speed of service, employee safety and staff turnover; and business unit financial and non-financial quantitative metrics (such as restaurant revenue and restaurant EBITDA). Each staff member is given a specific action plan to implement in order to reach goals for each of these metrics. We provide good career growth opportunities to staff members depending on their performance results. We seek to recognise the true potential of each employee early and to train and promote our employees within the organisation. Any staff member that demonstrates impressive performance results has good opportunities to progress over time from a lower level staff member to a restaurant manager or even a higher position.

Our restaurant management and staff also benefit from a bonus programme that is based on the KPIs relating to their restaurant. Each quarter, restaurant employees are paid a quarterly bonus on the basis of their achievements, up to a maximum of 100% of an average monthly wage. The work of the restaurant is assessed according to parameters that measure: (1) guest service; (2) financial results; (3) maintenance; and (4) sanitary conditions of the restaurant. The heads of the corresponding departments assess each restaurant on the basis of these parameters. A minimal level, which must be achieved to have the right for a quarterly bonus, is determined for every parameter. An analysis of the parameters is carried out on a regular basis in the end of every month or quarter and according to these results the restaurant employees receive a certain percent of the maximum bonus.

We also focus on improving our workforce in other ways in order to achieve the highest possible motivation of our employees. We design the work space in our restaurants so that our employees have the maximum comfort and most effective layout to allow them to perform their work efficiently. Our motivational system also includes free meals for all employees (including support staff and employees of the headquarters), medical servicing (including corporate doctor and clinic), organisation of employee transportation and gifts for holidays for employees and their children. Employees are also provided assistance from the company on occurrence of the employee marrying, having a child or suffering a death in the family, and employees may obtain loans for certain purchases, including housing, through our partner banks. We also conduct regular motivational personnel recognition events at the corporate level and at the restaurant level. For example, each year, we award the most efficient and honoured employees of the year at an event we call "The Best of the Best," and we praise employees upon their five, 10 and 15 year anniversaries in our employment.

We are also developing actively intercompany communications. We have been publishing our corporate newspaper — RosInter Review — for ten years. The newspaper is published in Russian and English and is distributed in each city where we have corporate restaurants. We promote communications through our intranet, to which both support office employees and restaurants have access and through which we update our community on industry development in Russia and worldwide, recent business trends, important events for us, local news, benefits, corporate events and welcome information and opinions from our fellow colleagues. Every employee may participate in the quarterly meetings with the CEO ("The Breakfast with President" programme) to discuss various matters concerning us and share concerns and initiatives they may have. Each employee may also address any questions directly to the CEO by a special e-mail address.

Marketing

Advertising strategy

Our advertising targets consumer preferences for wholesome, flavourful food without compromising convenience. Our advertising strategy is centred on our signature dishes, combined with a theme linked to the geographical origin of the restaurant cuisine. All themes are tested before implementation. Our core target audience is middle-class, 20 to 45 years old, with a balanced gender mix (apart from Planet Sushi, which targets 60% female customers).

We use a variety of media to convey our advertising. Outdoor advertising is our primary medium and, for brands that have critical mass in a local regional marketplace, television plays a supporting role. In 2006 and 2007, we ran a television advertising campaign for IL Patio in Moscow, Yekaterinburg, St. Petersburg and Latvia both to promote new dishes and to build the image of IL Patio. We use outdoor advertising (billboards, city formats, banners, etc.) as a key vehicle for all of our brands. We use other media, including internet, radio, print, cinema, direct marketing and other unconventional media, to optimise our media plan and coverage of target demographic profiles. We also implement public relations activities to convey brand messaging to the media and strengthen our ties to the customer community.

Loyalty programmes

We strive to position our brands as the consumer's top choice for casual dining experiences by offering good value-for-money in our core menus and attractive promotional offers developed by our R&D Department. We closely and constantly monitor consumer preferences and spending patterns, check competitive trends, track customer satisfaction, conduct primary quantitative and qualitative research, subscribe to secondary studies and test new products. These steps allow us to update regularly our value proposition (*i.e.*, the cost mix for our product development, advertising and media strategy) as we seek to reinforce our brand leadership position.

Our marketing strategy seeks to build client loyalty. We have created two loyalty programmes in Russia, the HGP and MALINA™. Neither programme offers direct cash discounts to the customer: HGP offers a credit to be applied to a future meal for up to a one-year period and MALINA™ offers reward points based on the customer's purchases that can be redeemed for a wide variety of awards. In detail:

- The HGP is our in-house loyalty programme launched in 1998, and the first of its kind in the restaurant industry in Russia. From April 2006, its Moscow membership (that amounted to 780,000 members as of 31 March 2006) has been in the process of being transferred into the MALINA™ loyalty programme, but HGP remains operational in Russia outside Moscow and as of 1 May 2007 has approximately 320,000 members.
- MALINA™ is a technologically-advanced loyalty programme that we promoted and helped to launch in April 2006 in cooperation with four major retailers in Moscow: TNK-BP (which operates gas stations with mini-markets in Moscow), Ramstore (grocery stores), Pharmacy 36.6 (pharmacies) and Vimpelcom (operator of Beeline, which provides mobile telephone services). MALINA™ has since added Raiffeisenbank and has reached an agreement to add Ile de Beauté (perfume stores) as of 1 June 2007. The programme currently operates in Moscow and is managed by an independent contractor. As of 1 May 2007, MALINA™ loyalty programme issued more than 2 million member cards. The MALINA™ programme also captures helpful customer information, including transactions at product and location level so that purchasing patterns and socio-demographic and lifestyle data can be analysed for all members.

MALINA™ offers several strategic advantages:

1. Exclusive access for us (in the restaurant sector) to a powerful marketing database that embraces much of Moscow's middle-class;
2. Low cost communication channels for direct marketing;
3. Ability to segment customers and elaborate differentiated value propositions to various segments; and
4. Tools to reward our best clients and target our competitors' customers.

These loyalty programmes are helpful in encouraging consumer loyalty and repeat business. In April 2007, transactions concluded by MALINA™ members accounted for 42% of revenues of our Moscow restaurants.

Mr. Rostislav Ordovsky-Tanaevsky Blanco, our founder and the chairman of our board of directors, holds the position of the chairman of the board of directors of Loyalty Partners Vostok LLC, the managing company of MALINA™.

Promotional programmes

We develop promotions designed to deliver added value in a highly competitive marketplace. We fully re-evaluate and re-issue our menus once a year. As a result, we change approximately 25% of our menu annually for each brand, which we believe is an appropriate balance between continuity of popular products and the introduction of tested new items (most of which were previously highly demanded items of successful promotions). We also offer regular promotions, each usually lasting eight weeks, aimed at "trading-up" (*i.e.*, switching customers' preference from basic low-margin items to high-margin novelties). The menu items participating in promotions vary depending on the season. In addition, we constantly offer attractively priced lunch menus, children menus and take-away menus. In summer, we maximise the seasonal opportunity to increase sales by opening summer cafés, giving our guests an opportunity to be served, in addition to the standard menu, a special light promotional menu in an open-air environment (with additional seating).

Suppliers and Purchasing Practices

Our ability to maintain consistent quality throughout our restaurants depends in part upon the ability to acquire food products and related items from reliable sources in accordance with our specifications in each of the markets in which we operate.

All the ingredients or products used to prepare our dishes are provided directly to our restaurants in Moscow and the Russian regions by our approved suppliers. Operationally, we use distinct approaches to purchasing our supplies in Moscow, in the Russian regions and the CIS and in Central Europe (and the Baltics). In Moscow, which accounted for approximately 64% of our total purchases in 2006, we operate a centralised purchasing department which carries out supplier approval processes and supplier monitoring for all our Moscow restaurants. In the Russian regions and in Belarus, Ukraine and Kazakhstan, which accounted for approximately 31% of our total purchases in 2006, each regional business is responsible for the inventory of its restaurants (usually the general manager). Each region has key distributors that consolidate the delivery of approved products from Moscow or other cities. Each regional business buys products from suppliers approved by the R&D Department. For perishable products, local suppliers are used as much as possible. In the Czech Republic, Hungary and Latvia, which accounted for approximately 5% of our total purchases in 2006, restaurant managers are directly responsible for purchasing. The restaurant managers' compensation depends largely on the financial performance of the restaurants so that their interests are aligned with minimising prices and eliminating purchases that lead to waste.

Our supplier base is substantially diversified in Russia and the CIS. As of 1 May 2007, in Moscow we had contracts with 80 food suppliers, 34 alcohol suppliers and 42 non-food suppliers. There is only one supplier (Emborg) responsible for more than 10% of our Moscow deliveries; Emborg supplies meat, fish, baked goods, fresh produce, dairy products, sauces and canned goods and accounts for approximately 10% of our Moscow deliveries. When economically efficient, we attempt to use the same suppliers for all our Russian and CIS operations across all our brands for non-perishable and for refrigerated ingredients. This approach simplifies the maintenance of quality standards and improves economies of scale in our negotiations with suppliers and transportation services. Our independent franchisees are required to use the same approved suppliers to help insure safety and quality as well as to encourage best pricing.

In Moscow, we regularly inspect vendors to ensure that the products purchased conform to our quality standards, and our quality assurance team performs comprehensive supplier audits on a frequency based on the potential food safety risk of each product. Every supplier is required to provide certificates evidencing the quality of its products, which include comprehensive information detailing product origin. Products are typically delivered several times per week directly to each restaurant. Given that we rely on direct deliveries to our restaurants, we are seeking to use only two or three suppliers per product to limit the number of daily deliveries to our restaurants. Moreover, the increased total volume of products delivered by particular suppliers sometimes allows us to negotiate additional discounts and benefits. We currently intend to further reduce the number of suppliers, based on the APL. Currently, about 80% of our purchases are delivered by our twenty largest suppliers.

In general, we use a standardised supply contract for supplies and food products for our Moscow operations, typically with a term of one year and an optional one-year extension if mutually agreed.

Usually, pricing is only agreed for periods of three to six months and then re-negotiated. In the Russian regions, we contract with local suppliers under similar terms. Price lists are agreed with the suppliers and are renegotiated periodically. The standard requirements we impose on our suppliers in Moscow includes 30 banking days credit on payments, 24 hours door-to-door delivery, marketing fund allocations for joint marketing activities, electronic data exchange and reconciliation and access to their premises to carry out regular audits. We generally include penalties for breach of contract terms to ensure a disciplined supply chain. With the development of our Hub Cities, we plan to extend the same standards across our business in the Russian regions. We have several agreements with our distributors for soft drinks, juices, coffee, beer and tobacco. We are currently re-negotiating our five-year contract with our primary beverage supplier, Coca-Cola®.

For each of our supplies, we screen potential suppliers, typically identify six or seven approved potential suppliers, and then we conduct a tender amongst such approved suppliers for particular deliveries. We visit each of our approved suppliers and conduct a technical evaluation of their operations at least twice per year in Moscow. In Moscow, as a cost-saving measure, we also have a central commissary that supplies our corporate and franchised restaurants with certain semi-finished cooked products, such as soups and sauces, in order to increase our operational efficiency and the consistency of our menu items.

Environment, Health and Safety

We believe that we are in material compliance with applicable environmental legislation and are not aware of any past, current, pending or potential material environmental claims against us. In the past, we have sometimes been subject to fines for delays in making environmental payments, but we do not believe any past, current or future non-compliance will be material or have had or will have a materially adverse effect on our business and results of operations. We do not carry third-party liability insurance in respect of environmental damage.

We have food safety and quality assurance programmes designed to maintain the highest standards for food quality and food preparation procedures in accordance with international practices, which are used by all our restaurants (corporate and franchise). These programmes include strict guidelines on the proper handling of fish, beef, pork, poultry and other meat, proper temperatures for food storage, preparation and serving. Our team of territory managers performs comprehensive restaurant audits. Territory managers visit each of our restaurants and evaluate all areas of food handling, preparation and storage on a quarterly basis. We also have ongoing food safety training to instil in our employees the importance of product quality at every stage of the food preparation cycle.

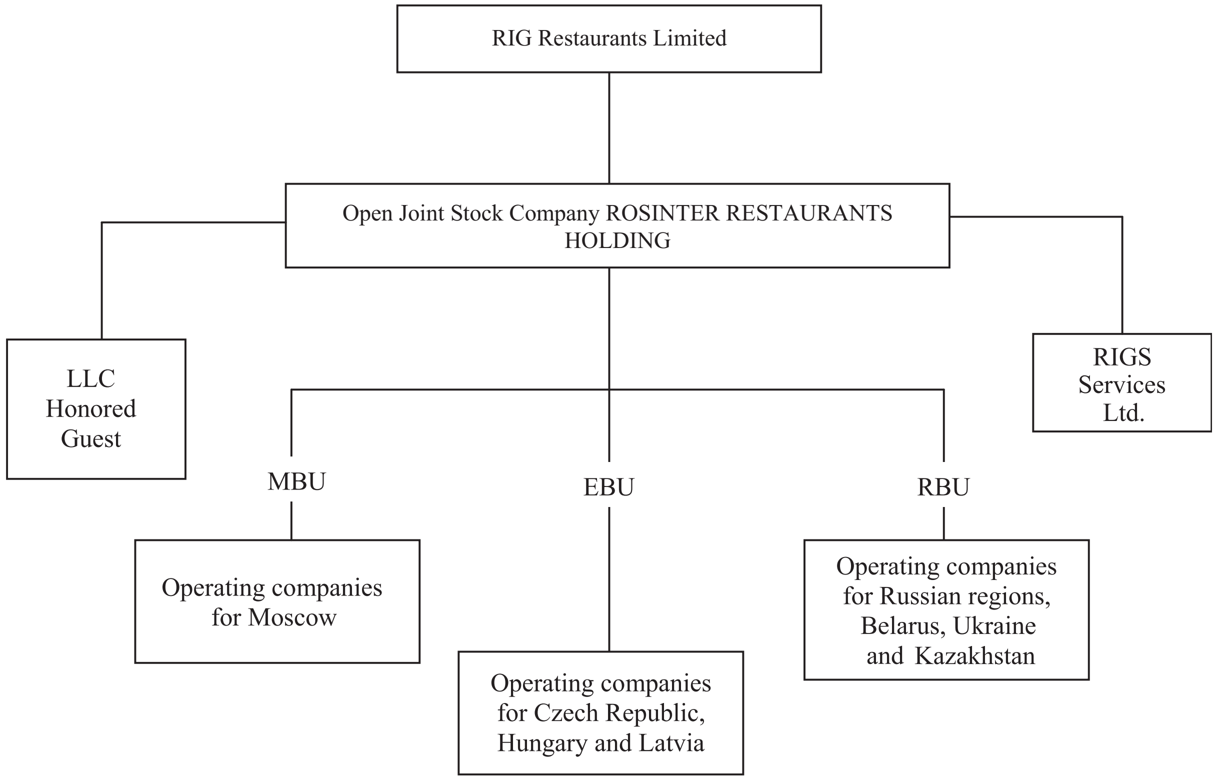
We comply with all applicable statutory hygienic and sanitary procedures. In addition, in Russia and the CIS, we seek to follow the Hazard Analysis Critical Control Points standards (the "**HACCP**"), which is a European Union law. These standards are used in most major international restaurant chains. We are currently in the process of implementing a unified system of food safety training in accordance with the HACCP. Senior managers will complete this introductory HACCP training in the remainder of 2007.

Organisational Structure

Corporate structure

We are an open joint stock company, incorporated under the laws of the Russian Federation, which is the holding company for our group of companies. The Group operates through a number of subsidiaries that are our operating companies and holders of certain intellectual property material to our business. In general, our Group companies are organised in the jurisdiction in which they conduct their business. As discussed under "Restaurant Operations — Corporate Restaurants," in our operations in the Russian regions and the CIS we have generally collaborated with a regional partner, who generally takes up to a 49% equity stake in the relevant local operating company. In some of our Group service companies we have a 25% equity stake, but through contractual arrangements we effectively control these entities. These entities are not consolidated into our IFRS financial statements.

The following chart presents our corporate structure as of 1 May 2007. LLC Honored Guest, incorporated in Russia, operates and manages the HGP loyalty programme in the Russian regions. RIGS Services Ltd., incorporated in Cyprus, owns most of the Group's trademarks.



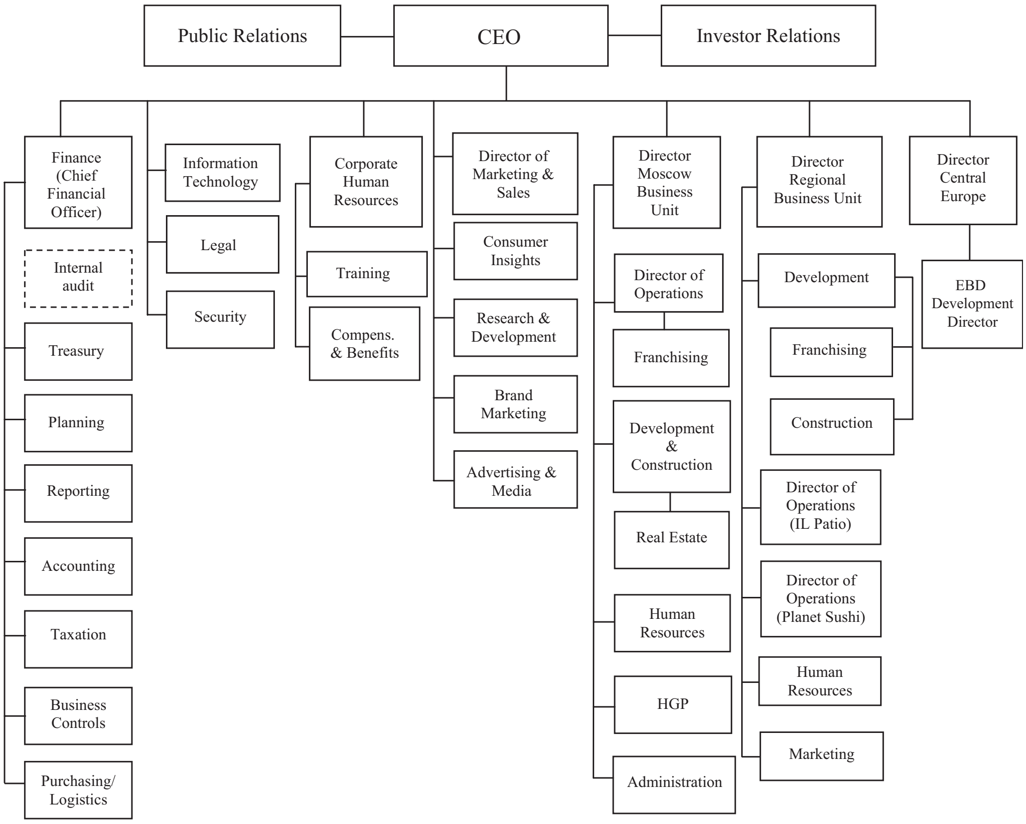
Management structure

As the organisational chart above indicates (and as also indicated by the following chart of our management structure) we maintain separate business units to oversee our operations in Moscow (Moscow Business Unit, or "**MBU**"), the Russian regions and the CIS (in particular Belarus, Ukraine and Kazakhstan) (Regional Business Unit, or "**RBU**") and Central Europe (and the Baltics) (in particular the Czech Republic, Hungary and Latvia) (European Business Unit, or "**EBU**"). In Moscow, each restaurant has a general manager supported by several assistant managers (at a ratio depending on the size and revenues of the restaurant). These individual restaurant managers report daily to territorial managers, who generally oversee eight to ten restaurants (which may be a mix of corporate and franchise restaurants and are generally of the same brand). In turn, the territorial managers report to the director of operations for the brand (or to the director of operations for Combos/Multibrands) and these directors report to the operations general director of the Moscow Business Unit.

In the Russian regions and the CIS, "operational regional directors" manage all restaurants (regardless of brand) in a particular city. In the case of regional partnerships, the regional director of operations reports to the general director (*i.e.*, the chief executive officer) of the relevant regional company or partnership, who reports to the board of directors of the regional partnership. See "Restaurant Operations — Corporate Restaurants." In the case of our wholly owned corporate restaurants, our area directors (or territory directors if they oversee multiple areas) oversee the regional director of operations, and report to the director of the RBU. Currently, our management continues to carry certain administrative responsibilities for our spun-off Rostik's business under arm's-length service arrangements that are expected to expire by 31 December 2008. See "— History and Development."

Our brand development, marketing and management are overseen by our marketing department, which is also responsible for research and menu development (led by the R&D Department) and the design of our branded restaurants.

The following chart presents our management structure as of 1 May 2007.



An overarching objective of our organisation is to achieve the benefits of a multinational corporate structure while maintaining and encouraging an entrepreneurial culture.

Property

Real property

Good locations are crucial for a successful restaurant business. We consider our locations in Moscow to be generally either prime or very good, largely because we enjoy long-term contacts with district governments in Moscow that enable us to become aware of upcoming real estate tenders. As a restaurant operator, we have special requirements regarding matters such as electrical capacity, delivery paths, garbage collection and size.

We operate restaurants in various configurations (including Combos and Multibrands) that have an average total area of 350 square metres per restaurant location in Russia and the CIS and 275 square metres per restaurant location in Central Europe (and the Baltics). On average, the dining area represents between 58% and 60% of the total area of a restaurant. Our real estate management teams are responsible for rent reviews, licences, service charges and other aspects of the administration of our corporate properties. Our average annual rent costs in 2006 were approximately US$720 per square metre in Moscow, US$365 per square metre in Russian regions and the CIS and US$545 per square metre in Central Europe (and the Baltics), and varied depending on the location, condition and use of the property.

Substantially all of our restaurants operate on premises leased from third parties. The following chart shows the average terms of our existing lease agreements as of 1 May 2007.

Term of Lease	Percent
< 1 year	36%
1-5 years	14%
>5 years	40%
Indefinite period	10%
Total	100%

Our strategy is to maintain long-term lease agreements, although due to market conditions this strategy is easier to implement in Central Europe (where the expiry terms of our leases vary from 2009 to 2022) than in Russia and CIS (where we have entered into a few agreements expiring between 2014 and 2019 but where approximately half of our leases are short-term). See "Risk Factors — Risks Related to our Business and Industry — We lease premises for most of our restaurants and our inability to secure our lease rights and maintain our existing restaurant locations may adversely affect our business." We believe that our profile as a tenant has helped us and will in the future help us to negotiate favourable terms of lease agreements and renew leases on expiry. We also use different legal means to secure our leasehold, including negotiation of prolongation and termination clauses. Most of our lease agreements provide that, subject to compliance with the lease terms, we have prolongation rights exercisable upon a written notice to the lessor (which right is also available to us by operation of law). We also tend to limit our lessors' termination rights to the mandatory cases provided by law such as termination in cases of substantial deterioration of premises and failure to make lease payments but approximately half of our lease agreements provide for additional termination events such as unauthorised sublease of premises or failure to insure the same. In all of our operating history we have never had a lease agreement terminated against our wishes. The following chart shows the description of termination risk with respect to lease agreements ending within the next calendar year from 1 April 2007 (including those which were entered into for an indefinite period) with the percentage figure indicating the percentage of total operating revenues generated by the restaurants falling under each description of lease termination risk:

Landlord is our related party or we have a written commitment to extend the lease	70.6%
Oral commitment from the landlord received or ongoing negotiation to sign a long-term agreement	8.1%
Defects of ownership title or the certificate of the ownership has not been issued yet	2.4%
Landlord is reluctant to sign a long-term agreement and/or we bear the potential risk of losing premises	8.3%
We are planning to close the restaurant by the end of the agreement	10.6%
Total	100%

Intellectual property

We generally register our proprietary trademarks/service marks (the "**trademarks**") with the appropriate authorities in the jurisdictions in which we conduct our business.

The IL Patio trademark has been registered in Russia, Belarus, Ukraine, Kazakhstan, Estonia and Latvia. The pre-restyling Planet Sushi trademark has been registered in Russia, Belarus, Ukraine, Kazakhstan, Estonia, Latvia and Lithuania and the post-restyling Planet Sushi trademark has been registered in Cyrillic characters in Russia and, under the Madrid Treaty of 1981, in the CIS and in Latin characters in Latvia. The 1-2-3 Café trademark has been registered in Russia. The trademark registrations for IL Patio are due to expire in 2014 (except for the registration in Estonia, which expires in 2016). Trademark registrations for 1-2-3 Café and the new Planet Sushi trademark are due to expire in 2015 (except for the registration of the new Planet Sushi trademark in the CIS and Latvia, which expires in 2016), whereas the old Planet Sushi trademark registration expires in 2009. We expect we will be able to extend our trademark registrations at the appropriate time. We also have a number of trademarks used by our restaurants operating under the brands other than the Core Brands (American Bar and Grill, Moka Loka, El Rincón Español, Café des Artistes, HippoClub and Pechky-Lavochky). We have not registered the Santa Fe trademark for our fine dining restaurant using that name due to legal restrictions on registration of trademarks matching the names of geographic locations. Our subsidiary Rigs Services Ltd. owns our proprietary trademarks (other than Café des Artistes and the new Planet Sushi trademark in the CIS, which are owned by Rosinter Restaurants LLC, the Honoured Guest trademark, which is owned by Honoured Guest LLC and American Bar and Grill trademark in Kazakhstan owned by Rostik Interntional C.A., our related party) and licenses their use to the other companies in our Group, which use such rights themselves or further sub-license them to our franchisees. To date, we have not sought to register particular menu items as service marks.

We also use some trademarks under licence from their owners, in particular the T.G.I. Friday's®, Benihana and Sibirskaya Corona trademarks.

We have an exclusive development right, expiring on 1 January 2012, to develop T.G.I. Friday's® restaurants in Russia, Belarus, Ukraine, Kazakhstan, in the Baltic States (Estonia, Latvia, Lithuania) and in Central Europe (Austria, Poland, Czech Republic, Hungary, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro). We use the "T.G.I. Friday's®" trademarks on the basis of franchise agreements with T.G.I. Friday's, Inc., a New York corporation, which maintains trademark registrations in all our development territory.

In 2001, we acquired the exclusive rights, expiring after 15 years from the date when the restaurant opens, to develop and open restaurants under the Benihana of Tokyo trademark in Russia and the CIS from Benihana Ono Restaurant Holdings B.V. Although the licence agreement has not been registered, we believe that we enjoy exclusive use of the Benihana trademark in Russia because we have a development agreement in place.

With respect to our Sibirskaya Corona beer restaurants in Russia, we are using the Sibirskaya Corona trademark under licence of Sun InBev which expires in 2009 and which covers the Siberian and Far Eastern Federal Districts of Russia as well as the cities of Tyumen, Samara, Togliatti, Sochi, Krasnodar, Kazan, Tobolsk, Perm, Ekaterinburg, St. Petersburg, Rostov-on-Don and other cities that may be from time to time agreed by the parties.

The Group maintains registration of the following principal domain names: http://www.rosinter.ru, http://www.rosinter.com and http://www.rosinter.eu/. We also maintain registration of domain names for certain of our brands and operations, including http://www.1-2-3cafe.ru/, http://www.123cafe.ru/, http://www.americanbar.ru/, http://www.franchising.ru/, http://www.honoredguest.ru/, http://www.ilpatio.ru/, http://www.planetashushi.ru/, http://www.planetsushi.ru/ and http://www.sushiplanet.ru/.

Information Technology

We maintain financial and accounting controls for each of our restaurants through the use of centralised accounting and management information systems and reporting requirements. We currently use 1C and ERA Financials systems for Russian and IFRS accounting and taxation purposes. We are introducing a medium-level ERP system (Axapta) as a substitute for our existing finance and accounting systems, which will be used for Russian accounting, taxation, IFRS accounting, treasury and corporate reporting. Simultaneously, we are implementing a new centralised goods management system (Crunchtime), which will replace our existing inventory system (Warehouse) and which will be used for procurement and supplier management and control as well as for management and control of inventory and cost of production and sales. We expect to completely introduce these systems in 2008 for MBU and in 2009 for RBU and EBU. We involve our Internal Audit department as well as external consultants in these implementation projects to analyse internal controls built into developing systems and make recommendations on the improvement of systems of internal controls (both IT and manual). Our accounting and treasury departments use software that allows them to reconcile on a daily basis the sales and cash deposit information sent by each corporate restaurant with the deposit information provided by our banks.

Our main business units in Moscow, St. Petersburg, Omsk, and Novosibirsk are linked by a single internal communication network, which allows the secure delivery of daily information on sales, labour costs and food costs. We continue to upgrade our information systems. In the remainder of 2007 and in 2008, we are planning, first in Moscow and then in the Russian regions, to upgrade our networking infrastructure in order to improve reliability and functionality (including providing Voice over Internet Protocol (VoIP) telephony, unified messaging and access to a unified Intranet including corporate reporting and Cognos, a system for centralised planning and budgeting). Likewise, for personnel accounting and payroll, we are introducing the use of BOSS-Kadrovik, which provides automation of main processes for effective human resources management.

Insurance

We insure our property, civil liability and business interruption in Moscow, the Russian regions and the CIS through major Russian insurance companies (primarily Rosno and Ingosstrakh), although in some markets where such insurers do not have a representative office, we use local insurance companies. We insure our operations in Central Europe (and the Baltics) with local insurers in those markets. In relation to property insurance, the list of insured accidents includes risk of damage caused as a result of fire, lightning, gas and other household explosions, flood and water-main accidents, robbery and criminal activity, vandalism and unlawful acts of third parties, power outages and unexpected failure of freezing equipment, terrorism and other similar events. Our civil liability insurance includes insurance of general civil injury liability, liability due to defects of goods, works and services and liability of persons exploiting hazardous facilities. We typically enter into one year insurance agreements and negotiate prolongation or replacement thereof in advance.

Litigation

We are from time to time subject to routine legal proceedings in the markets in which we operate. We believe that none of these proceedings, individually or in the aggregate, are material to our business, financial condition or results of operations.

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

The following discussion and analysis of the Group's financial condition and results of operations covers the years ended 31 December 2006 and 2005. The financial information presented in this discussion has been extracted or derived from, and should be read in conjunction with, the Financial Statements and related notes included elsewhere in this Offering Memorandum.

Certain information contained in this section and presented elsewhere in this Offering Memorandum, including information with respect to our plans and strategy, includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements." In evaluating this discussion and analysis, you should specifically consider the various risk factors described under "Risk Factors" that could cause our results to differ materially from those expressed in such forward-looking statements.

Overview

Operating 192 restaurants, featuring some of the most recognised brands in Russia and benefiting from experienced management, we are the leading casual dining operator in Russia and the CIS. According to a research report by In-Depth prepared for us, as of 31 December 2006, we had the largest market share by number of restaurants and revenue of all casual dining operators in Moscow.

From 15 restaurants as of 31 December 1996, when we opened our first regional restaurant, we have grown to 192 restaurants located in 23 cities in Russia, the CIS and Central Europe (and the Baltics). We own most of our restaurants (154 restaurants), but we also enter into franchise arrangements (with 38 restaurants operated by 13 franchisees) (all restaurant figures in this "Overview" subsection are as of 1 May 2007 unless otherwise specified). In 2006, we served approximately 12.5 million guests, on average more than 34,000 guests each day. Our revenue for the year ended 31 December 2006 was US$218,626 thousand compared to US$165,712 thousand for the year ended 31 December 2005. At 2006 year-end, we had approximately 7,500 employees.

We have restaurant concepts covering each of the four most popular cuisines in Russia and the CIS: Italian, Japanese, American and Russian. Our IL Patio and Planet Sushi brands, which we established, developed and promoted, are the second and third most-recognised casual dining brands in Moscow, according to a report prepared for us by In-Depth in 2006. Our IL Patio restaurants (67 restaurants) feature Italian cuisine in a casual contemporary setting while our Planet Sushi restaurants (60 restaurants) offer Japanese cuisine in a soothing Asian atmosphere. Under an exclusive franchise arrangement, we operate 17 T.G.I. Friday's® restaurants in Moscow, Omsk, Minsk, Kiev, Riga, Prague and Budapest. Across six cities in Siberia and the Urals region, we operate 13 Sibirskaya Corona (Siberian Crown) beer restaurants serving Russian cuisine under a licence agreement with Sun InBev, which owns the Sibirskaya Corona trademark. In December 2005, we successfully launched a new restaurant concept: 1-2-3 Café, providing traditional Russian food in a contemporary atmosphere. We also have operations in the Czech Republic, Hungary, Latvia, Belarus, Ukraine and Kazakhstan, operate other restaurant brands including Moka Loka and American Bar and Grill and own two fine dining restaurants in Moscow (Santa Fe and Café des Artistes).

Our founder, Rostislav Ordovsky-Tanaevsky Blanco, started our business in 1990 and remains our principal beneficial shareholder and chairman of our board of directors. Our CEO, Lori Daytner, first joined us in 1992 and assumed her current position in September 2006.

Our strategy is to continue to expand by both corporate development and franchising, while maintaining the level of good, mid-priced food and efficient, friendly service that our customers have come to expect. We vigilantly maintain quality control at all our restaurants so as to maintain our reputation for good food served in a pleasant, clean environment. We believe that this commitment, supported by marketing activities that are comparable to other leading international casual dining companies (as percentage of revenue), has built our brands and will help fuel our future growth. Our expansion is targeted to meet the demand of the burgeoning middle-class in Russia, particularly through corporate and franchise restaurants in Moscow, through corporate restaurants in cities in Russia and the CIS with more than 500,000 inhabitants, through franchise restaurants in cities with more than 350,000 inhabitants and through both corporate and franchise restaurants in Central Europe (and the Baltics). We plan to increase the number of locations using our established restaurant concepts via corporate development and active franchising and to pursue differing formats for our existing brands, in particular in locations at or near transportation infrastructure, such as airports and train stations, and at or near shopping malls and office complexes. Drawing on our past experience, we believe we have particular skill in identifying good locations for new restaurants: good location is generally one of the most important elements of a restaurant's success. We may also pursue growth through acquisitions of comparable businesses.

Certain Factors Affecting the Presentation of the Group's Financial Results in the Financial Statements

For the year ended 31 December 2006, the Group generated revenues of US$218,626 thousand, gross profit of US$80,725 thousand and net profit of US$779 thousand. As of the same date, the Group had operating cash flow of US$23,962 thousand and an Adjusted EBITDA (see "Key Financial Indicators — EBITDA and Adjusted EBITDA") of US$26,816 thousand. Furthermore, as of 31 December 2006, our Financial Statements reflect a deficit on equity of US$23,848 thousand, accumulated losses of US$99,509 thousand and a net current liability position of US$41,464 thousand. The factors affecting the deficit on equity, accumulated losses and net current liability position are discussed below. See also Note 2 to our Financial Statements.

Deficit on equity

As of 31 December 2006, the Group had a deficit on equity of US$23,848 thousand which primarily resulted from distributions to RIG Restaurants Limited ("**RRL**") from 2004 through 2006 of US$64,263 thousand in the form of loans which were subsequently forgiven.

Prior to 2004, RRL held, directly or indirectly, the Group's entities, as well as holding non-Group entities. In 2004, "ROSINTER RESTAURANTS HOLDING" ("**RRH**") was established as a new intermediate holding company holding the Group (as well as non-Group entities, including the spun-off Rostik's business), which was accomplished by RRL contributing the shares of Group companies to RRH. From 2004 to 2006, Group companies lent funds to RRL, which in turn used such loans to make equity investment in the Group as well as to fund non-Group businesses, including the spun-off Rostik's business and non-restaurant companies. In light of such use of funds, RRH took the decision to forgive the loans, which were recorded as accumulated losses. See "Business — History and Development."

The transactions discussed above are of an historical nature and will not recur in the future. Following completion of the Offering and the Closed Subscription, the deficit on equity is expected to be reversed. See "Capitalisation."

Accumulated losses

As of 31 December 2006, the Group had accumulated losses of US$99,509 thousand. The accumulated losses resulted from the historical structure of the Group's operations as discussed below.

From 2004 through 2006, the Group's current entities made distributions to RRL in the form of loans which were subsequently forgiven and were charged to accumulated losses in the amount of US$64,263 thousand. See "— Deficit on equity."

In 2004, RRL contributed the shares of the Group's operating entities to the charter capital of RRH. This contribution involved an independent valuation of the contributed assets as required by Russian law. The difference of $47,987 thousand between such independent valuation (US$85,214 thousand) and the historical value of the assets in accordance with IFRS (US$37,227 thousand) was accounted for as accumulated losses.

In 2006, RRH spun-off some of its non-restaurant companies as well as the company operating Rostik's business pursuant to a long-term strategic alliance with Yum! Brands, Inc. in relation to the development of Rostik's business under the co-brand ROSTIK'S-KFC. See "Business — History and Development." This spin-off resulted in the decrease of RRH's share capital by US$26,669 thousand, which partially compensated for the valuation difference discussed above, and in the decrease of our accumulated losses by the same amount.

The remainder of the accumulated losses reflect the historical accumulated losses incurred by the companies owned by RRH.

Net current liability position

As of 31 December 2006, the Group's current liabilities exceeded its current assets by US$41,464 thousand. The net current liability position primarily relates to short-term debt (excluding short-term debt to related parties) of US$31,774 thousand, trade and other payables of US$23,154 thousand and short-term debt and payables to related parties of US$7,274 thousand.

Short-term debt represents a significant portion of our total debt since substantially all of our restaurants operate on premises leased from third parties and, accordingly, it is difficult for us to attract long-term financing from Russian banks, which tend to view real estate as preferred collateral for such financing.

The Group has undertaken several initiatives aimed at improving performance and liquidity, including, but not limited to, the following:

a) In November-December 2006, 29% of the Group's bondholders exercised their put option which resulted in the repayment of approximately US$11,000 thousand of debt through short-term bank loans. Subsequent to 31 December 2006, these bonds were repurchased by investors in the market with a new put option exercisable on 30 May 2008 and a maturity date of 26 November 2010.

b) We extended from the first quarter of 2007 to the third quarter of 2007 approximately US$5,000 thousand of short-term debt from Sberbank. We believe that, if required, a further extension is likely, due to the Group's strong relationship with Sberbank. Given the Group's long-term relationship with other banks, we believe that, if required, an extension of other short-term loans is probable. In addition, as of 31 December 2006, the Group had US$2,130 thousand of open credit lines.

c) We have introduced enhanced operational initiatives designed to improve the Group's liquidity and its capital expenditure process. Actions implemented include, among others, an improvement in the business economics through savings in labour, food and beverage costs, and an increased franchised component in its new restaurant development plan. Based upon the Group's operating plan, management expects cash flow from operating activities for 2007 to increase over 2006.

d) If necessary, payables and short-term debts to related parties in the amount of US$7,274 thousand as of 31 December 2006 can be renegotiated and extended to 2008 or later.

We believe that the combination of the aforementioned initiatives will provide the Group with the liquidity necessary for it to continue to finance its operations.

Certain Factors Affecting the Group's Results of Operations

The Group's results of operations are affected by certain factors relating to its business and the markets in which it operates as well as to the political, economic and legal environment in Russia, the CIS and Central Europe (and the Baltics). See also "Risk Factors — Risks relating to the Russian Federation."

New restaurants openings

During the periods under review, we continued to expand our business. The total number of our restaurants increased from 147 restaurants as of 31 December 2005 to 174 as of 31 December 2006.

The new restaurant openings have affected our results of operations in the periods under review by increasing revenues, costs of goods sold and selling, general and administrative ("**SG&A**") expenses. See "— Results of operations for the years ended 31 December 2005 and 2006."

We intend to continue to expand the Group's operations both by increasing the Group's penetration in the areas in which it currently operates and by expanding selectively into new geographic areas. See "Business — Business Strategy."

Multiple business models

During the periods under review, we operated our business through corporate restaurants and franchised restaurants. See "Business — Restaurant operations — Corporate restaurants" and "Business — Restaurant operations — Franchise restaurants." A new corporate restaurant does not contribute to our operating profit immediately since 12 months is typically required for such new restaurant to fully mature. Unlike corporate restaurants, the franchised restaurants contribute to our operating profit immediately due to upfront franchise fees payable to us by the franchisees.

In addition, some of our corporate restaurants operated under partnership arrangements. See "Business — Restaurant operations — Corporate Restaurants — Regional partnerships and Moscow profit-sharing arrangements." Pursuant to certain regional partnership agreements, our regional partners provide loans for the construction and outfit of our restaurants in which case all our restaurant profit is allocated to the partner until the partner fully recovers the financing cost, following which restaurant profit or net profit of such regional partnerships is distributed pro rata to shareholdings. In all other cases all net profit is distributed pro rata to shareholdings. During the period under review, some of our Moscow restaurants operated under the profit-sharing arrangements. Those agreements provided that our partners undertook funding of all costs and expenses in connection with the construction and opening of a new restaurant as well as, in certain cases, leasing and wage costs, and we agree to obtain all necessary permits and authorisations required for opening a new restaurant, to operate such restaurant and incur all related maintenance costs, except for those mentioned above. Accordingly, generally 90% of a restaurant's free cash flow was directed to the partner until its investment was fully recovered following which the free cash flow is split between the partner and us, typically in proportions of either 50% and 50%, respectively, or 49% and 51%, respectively. See also "— Recent Developments" for discussion of the recent developments in connection with our partnerships and profit-sharing arrangements.

We have developed some of our restaurants under the Combo and Multibrand formats. See "Business — Competitive Strengths." We believe that development through these formats has enabled us to benefit from: (i) better access to real estate at lower rental cost; (ii) opportunities for cross-selling between our brands, and (iii) investment and cost management efficiencies (including reduced space requirements, reduced investment in kitchen equipment due to the sharing of space and facilities (kitchen and service area), and reduced cost of labour due to shared management and kitchen staff). We intend to use the Combo format as our preferred development format for our corporate restaurants.

Multi-market development

The Group has a focused multi-market development plan which combines simultaneous development in profitable markets and in markets with high growth potential even if these markets provide a lower return on investment in the short-term. Accordingly, our restaurants are subject to geographical differences, both in terms of the scale of investments required to open a new restaurant and the financial results of such new restaurant. For example, our budget for the development of new restaurants is based on average total costs to construct and equip a new restaurant that amount to approximately US$588,875 in Moscow, US$423,020 in the Russian regions and the CIS, and US$353,750 in Central Europe (and the Baltics), in each case net of VAT, and, having reached its maturity, typically generates annual net revenues of US$2,000 thousand in Moscow, US$1,500 thousand in the Russian regions and the CIS and US$900 thousand in Central Europe (and the Baltics).

Pricing policy

We believe that the Group has a flexible and differentiated pricing policy. See "Business — Restaurant Operations — Pricing policy." Our pricing policy is generally based on marketing analysis, including analysis of customer needs and expectations and research on competitors and alternative dishes. While achieving our overall pricing goals, we have also developed strategies to enhance the perception that our menus offer good value-for-money. For example, we selectively lower prices on the most popular menu items below the pricing of our competitors in order to draw customer traffic, thereby creating a higher differential between the lowest and highest prices in each menu category, and then encourage customers to select the higher-priced choices.

Purchasing arrangements

Our purchasing arrangements (see "Business — Suppliers and Purchasing Practices") have a direct impact on our results of operations. As the leading casual dining operator in Russia and the CIS, we are also one of the most important customers for many of our suppliers. This enables us to negotiate discounts and other favourable terms on purchases from our suppliers. Such favourable terms can help reduce our cost of goods sold and can therefore help improve our gross margin.

Costs and expenses

We have been focusing on decreasing the cost of goods sold by: (i) reducing the number of product items that are used for preparation of food pursuant to the APL which enables us to enhance economies of scale, and (ii) using menu engineering techniques which allows us to propose to our guests compelling menu propositions with a more efficient cost of food profile.

In order to offset the impact of rising labour costs, we also introduced several initiatives such as enhanced restaurant staff scheduling monitored through the Person Minutes per Ticket KPI (restaurant staff time per check). Such initiatives enabled us to decrease the cost of labour, measured as a percentage of revenue.

Our average annual rental costs in 2006 were approximately US$720 per square metre in Moscow, US$365 per square metre in the Russian regions and US$545 per square metre in the CIS and Central Europe (and the Baltics), and varied depending on the location and condition of the real estate. We intend to continue leveraging our status as a preferred tenant that leases substantially larger spaces than competitors in order to obtain advantageous lease terms. We also believe that the focus on our preferred growth format, the Combo, will contribute to a more efficient use of rented space, thus reducing our rent expenses.

Seasonality

We plan our marketing promotional calendar in order to manage seasonality and increase our profit. In high seasons, we conduct promotions that target an increase in average check, while in low seasons we plan promotions that target an increase in customer traffic. In Moscow, low season is from January through February (when our revenue is approximately 15% lower than the average monthly revenue for the year), and high season is from October through December (when our revenue is approximately 5% higher in October through November and approximately 15% higher in December than the average monthly revenue for the year). In May through September, where practical we set up summer cafes attached to our restaurants, which allows us to increase our sales. The other markets in which we operate (*i.e.*, the Russian regions, the CIS and Central Europe (and the Baltics)) have generally similar seasonality trends.

Loyalty programmes

Our loyalty programmes are an important component of our marketing strategy. We have created two loyalty programmes in Russia, the HGP and MALINA™. Neither programme offers direct cash discounts to the customer. Instead, HGP, launched in 1998, allows participants to collect points in Rosinter restaurants (one point per Rouble spent). These points can be used to pay for next visit meals or to purchase goods from catalogue. HGP still operates in the regions of Russia. However, in April 2006, it was replaced by MALINA™ in Moscow. MALINA™ offers reward points based on customer purchases that can be redeemed for a wide variety of awards. Such programmes have helped us to gather market intelligence, attract new customers and gauge customer satisfaction.

Macroeconomic trends

The Group's revenue is principally generated in Russia. As a result, Russian macroeconomic trends, including the overall growth in the economy and in the markets in which we operate, significantly influence the Group's results of operations. In recent years, Russia has been able to overcome the consequences of the 1998 financial crisis. Since 2000, Russia has experienced economic growth with decreasing unemployment levels and increasing levels of disposable income among the population. Since 2002, GDP growth rates in Russia have remained relatively high compared to those in North America and Western Europe. We believe that these macroeconomic factors have contributed to the increase in the Group's restaurant revenue during the periods under review.

The table below summarises certain key macroeconomic indicators relating to the Russian economy for the periods indicated.

	Year ended 31 December		
	2006	**2005**	**2004**
GDP growth	6.7%	6.4%	7.2%
Consumer price index	9.7%	11.7%	12.0%
Unemployment rate	6.9%	8.2%	8.6%

Sources: Federal State Statistics Service; Central Bank of Russia

Recent Developments

In 2007, we continued to pursue our expansion strategy. The number of restaurants operated by the Group increased from 174 restaurants as of 31 December 2006 to 192 restaurants as of 1 May 2007. We intend to continue to expand the Group's operations both by increasing the Group's penetration in the areas in which it currently operates and by expanding selectively into new geographic areas. See "Business — Business Strategy."

We expect the factors that have affected our results of operations in prior years to continue to affect our results of operations in 2007. In addition, the following recent developments should be taken into account when assessing our results of operations.

Termination of partnership arrangements and profit-sharing arrangements

We have finalised our negotiations on the buy-out of our partners' stock from the regional partners in Belarus and Kazakhstan (who will be compensated by the Selling Shareholder with its shares) and Tyumen and Surgut (to whom we will pay in cash). Our regional partners in Belarus and Kazakhstan will retain a 10% equity stake in the partnerships. As of 1 May 2007, we notified all our partners in Moscow on termination of the profit-sharing arrangements except for three restaurants which remained to be operated under such arrangements. The termination of these partnership arrangements and profit-sharing arrangements will eliminate or substantially reduce payments to such partners. See "— Multiple business models" and "Business — Restaurant operations — Corporate restaurants — Regional partnerships and Moscow profit-sharing arrangements."

Transfer of the remaining Rostik's outlets

As of 31 December 2006, 14 Rostik's outlets remained owned by RRH and consolidated in our Financial Statements. Pursuant to our business alliance with Yum! Brands, Inc., the transfer of these outlets is expected to be completed by 31 December 2007, from which date revenues of these outlets will no longer contribute to the Group's revenues.

Stock option plan

As part of our employee retention and motivation strategy (see also "Business — Employees and training"), we have established the framework of our stock option plan whereby key employees will be entitled to compensation linked to the market price of our shares. The stock option is expected to be exercisable starting from 2009.

Key Financial Indicators

EBITDA and Adjusted EBITDA

The company uses Adjusted EBITDA, *i.e.*, the recurrent EBITDA generated by the operations of the company, as a measure to track improvement in overall recurrent operational profitability. Adjusted EBITDA is derived from EBITDA by adding back (i) the increase in amounts due under partnership agreements and (ii) one-off non-recurrent expenses. See "— Results of Operations for the Years Ended 31 December 2006 and 2005 — Other operating income/(expenses), net."

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)	Year change (%)
Profit before income tax	1,127	479	135.3%
Interest income/(expense), net	6,704	6,602	1.5%
Increase in amounts due under partnership agreements[1]	4,743	1,550	206.0%
Depreciation and Amortisation	8,153	8,274	–1.5%
EBITDA[2]	**20,727**	**16,905**	**22.6%**
EBITDA Margin, %	**9.5%**	**10.2%**	
Other gain/(losses), net	6,089	591	930.3%
Adjusted EBITDA[3]	**26,816**	**17,496**	**53,3%**
Adjusted EBITDA Margin, %	**12.3%**	**10.6%**	

Notes:

(1) To obtain EBITDA we add "Increase in amounts due under "partnership agreements" that corresponds to profit due during the year to our partners, in order to obtain the total EBITDA produced by our business and have a figure that could be compared with those of other companies in our sector.

(2) This Offering Memorandum contains non-IFRS measures and ratios, including EBITDA. We present EBITDA and Adjusted EBITDA because we consider them important supplemental measures of our operating performance and believe EBITDA measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Each of EBITDA and Adjusted EBITDA has limitations as an analytical tool, and it should not be considered in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations are: (i) EBITDA measures do not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance, (ii) EBITDA measures do not reflect the impact of income taxes on our operating performance and (iii) EBITDA measures do not reflect the impact of depreciation and amortisation on our operating performance. The assets of our business that are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from our EBITDA measures they do not reflect our future cash requirements for these replacements. In addition, other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our IFRS operating results and using EBITDA measures only supplementally. EBITDA measures are measures of our operating performance that are not required by, or presented in accordance with, IFRS. EBITDA measures are not measurements of our operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business.

(3) To obtain the Adjusted EBITDA we add to EBITDA "other gain/(losses), net" which consists primarily of transactions that in management's opinion are of a non-recurring nature. Please refer to Note 21 of Financial Statements.

The Company's Adjusted EBITDA increased from US$17,496 thousand in 2005 (10.6% of total revenue) to US$26,816 thousand in 2006 (12.3% of total revenue) as a result of increased revenues and less than proportional increases in operational costs and expenses as explained in the analysis above.

Results of Operations for the Years Ended 31 December 2006 and 2005

The following table sets out our income statement for the years ended 31 December 2006 and 2005:

	Year ended 31 December 2006 (US$ thousand)		Year ended 31 December 2005 (US$ thousand)		Year-on-year change (%)
Revenue	**218,626**	**100.0%**	**165,712**	**100.0%**	**31.9%**
Cost of sales	(137,901)	63.1%	(106,607)	64.3%	29.4%
Gross profit	**80,725**	**36.9%**	**59,105**	**35.7%**	**36.6%**
Selling, general and administrative expenses	(62,734)	28.7%	(49,239)	29.7%	27.4%
Foreign exchange gains/(losses), net	672	0.3%	(644)	0.4%	n/a
Other operating gains/(losses), net	(6,089)	2.8%	(591)	0.4%	930.3%
Profit from operating activities	**12,574**	**5.8%**	**8,631**	**5.2%**	**45.7%**
Financial income	705	0.3%	1,086	0.7%	(35.1)%
Financial expense	(12,152)	5.6%	(9,238)	5.6%	31.5%
Profit before income tax	**1,127**	**0.5%**	**479**	**0.3%**	**135.3%**
Income tax (expense)/benefit	(348)	0.2%	120	0.1%	n/a
Net profit for the year	**779**	**0.4%**	**599**	**0.4%**	**30.1%**

Revenues

For the year ended 31 December 2006, the Group's total revenue increased by 31.9% to US$218,626 thousand from US$165,712 thousand for the year ended 31 December 2005.

The Group's revenues consist of the following: (i) revenue from restaurants; (ii) revenue from sublease services and other services; (iii) franchise revenue; (iv) royalties; and (v) other revenue. Revenue represents the total amount of sales of the Group (less discounts and VAT).

Revenue for the years ended 31 December 2006 and 2005 consisted of the following:

	Year ended 31 December 2006 (US$ thousand)	Share of total revenue (%)	Year ended 31 December 2005 (US$ thousand)	Share of total revenue (%)	Year-on-year change (%)
Revenue from restaurants	202,330	92.5%	150,757	91.0%	34.2%
Revenue from sublease services and other services	3,686	1.7%	3,895	2.4%	(5.4)%
Franchise revenue	2,913	1.3%	1,246	0.8%	133.8%
Royalties	160	0.1%	3,701	2.2%	(95.7)%
Other revenue	9,537	4.4%	6,113	3.7%	56.0%
Total	**218,626**	**100.0%**	**165,712**	**100.0%**	**31.9%**

For the year ended 31 December 2006, revenue from restaurants increased by 34.2% to US$202,330 thousand from US$150,757 thousand for the year ended 31 December 2005 (including revenues of US$14,012 thousand and US$9,446 thousand for 2006 and 2005, respectively, from the regional Rostik's outlets to be spun-off in 2007). If the revenue of the Rostik's outlets to be spun off in 2007 is excluded, for the year ended 31 December 2006, restaurant revenues increased by 33.3% to US$188,318 thousand from US$141,311 thousand for the year ended 31 December 2005. This increase is mainly a result of the increase in the net number of corporate restaurants to 140 from 129 (24 gross openings), the increase in Same Store Sales Growth ("**SSSG**") in U.S. dollar terms of 12.7%, arising from a 4.2% increase in same store transactions, and an increase of 7.5% in same store average check in 2006 as compared with 2005.

SSSG represents a comparison in two consecutive financial years of the revenue of the same corporate restaurants that at the beginning of the first year were trading at their projected level of revenue and were not closed down permanently, expanded or downsized by the end of the second year. Based on our experience, new restaurants achieve such level on average by the end of the first 12 months of operations. The 55 restaurants selected for SSSG analysis therefore only include restaurants that were opened on or before 1 January 2004 and uninterruptedly operated at least until 31 December 2006. Restaurant revenue for the purposes of SSSG analysis was calculated on the basis of the net revenue of the relevant restaurants extracted from the management accounts of the Group for 2005 and 2006, translated into U.S. dollars (at the average of the official exchange rates quoted by the Central Bank of Russia in the relevant year).

For the year ended 31 December 2006, revenue from sublease services and other services decreased by 5.4% to US$3,686 thousand from US$3,895 thousand for the year ended 31 December 2005, consistent with the normal course of business.

For the year ended 31 December 2006, franchise revenue increased by 133.8 % to US$2,913 thousand from US$1,246 thousand for the year ended 31 December 2005, as a result of an increase in the revenue of existing franchisees and the opening of 19 new franchise restaurants.

Royalties are not a recurring source of revenue. For the year ended 31 December 2006, royalties decreased by 95.7% to US$160 thousand from US$3,701 thousand for the year ended 31 December 2005, due to the sale of Rostik's franchise operation to Yum! S.a.r.l International.

For the year ended 31 December 2006, other revenue increased by 56% to US$9,537 thousand from US$6,113 thousand for the year ended 2005, mainly due to an increase in marketing income from the advertising of third-party products and services in our restaurants and to an increase in the revenue of cafeterias that we operate for third-party companies on their premises.

Cost of Sales

For the year ended 31 December 2006, the Group's cost of sales increased by 29.4% to US$137,901 thousand from US$106,607 thousand for the year ended 31 December 2005. As a percentage of revenue from restaurants, the cost of sales decreased by 2.5% over the same period.

Cost of sales includes the following expenses: (i) food and beverages; (ii) payroll and related taxes; (iii) rent; (iv) loyalty programme discounts; (v) restaurant equipment depreciation; and (vi) utilities.

The following expenses were included in our cost of sales for the years ended 31 December 2006 and 2005, along with their percentage of revenue from restaurants:

	Year ended 31 December 2006 (US$ thousand)	Percentage of revenue from restaurants	Year ended 31 December 2005 (US$ thousand)	Percentage of revenue from restaurants	Year-on-year change (%)
Food and beverages	58,593	29.0%	44,773	29.7%	30.9%
Payroll and related taxes	39,074	19.3%	30,373	20.1%	28.6%
Rent	23,992	11.9%	16,095	10.7%	49.1%
Loyalty programme discounts	5,659	2.8%	5,132	3.4%	10.3%
Restaurant equipment depreciation	6,222	3.1%	6,826	4.5%	(8.8)%
Utilities	4,361	2.2%	3,408	2.3%	28.0%
Total	**137,901**	**68.2%**	**106,607**	**70.7%**	**29.4%**

For the year ended 31 December 2006, the cost of food and beverages decreased by 0.7% as a percentage of revenue from restaurants as compared with the year ended 31 December 2005 due to several factors. First, we improved purchasing practices due to our focus on having a more cost-efficient approved product list. We reduced the variety of items that we purchase, thereby increasing the volumes per item purchased, which allows us greater leverage when negotiating with our suppliers. By purchasing higher volumes of a smaller number of items, we were able to realise savings from better pricing in the second half of 2006. Second, due to our sales mix analysis, we were able to replace or delete menu items that were no longer relevant for our guests. An important example of this was our removal of salad bars from our largest brand, IL Patio, which enabled us to increase the amount of seats (allowing for increased sales), eliminate a high cost item and replace that item with a selection of higher-margin items that were more popular with our guests (as shown by increased sales of more cost-efficient single-serving salads within the appetizers category). Furthermore, with respect to our T.G.I. Friday's® and Planet Sushi, we analysed the menu and removed low-sales items that required individual components unique to a particular dish. At Planet Sushi, this analysis resulted in the reduction of menu items by 20%. Third, with respect to our T.G.I. Friday's®, we began to make certain items in-house rather than purchase pre-made ingredients. These efforts resulted in better, fresher appetizers at lower cost. Our R&D Department was set up in the third quarter of 2006 to address these measures among all our brands, and the R&D Department will continue to monitor and improve their impact.

For the year ended 31 December 2006, payroll and related taxes decreased by 0.8% as a percentage of revenue from restaurants as compared with the year ended 31 December 2005 as a net result of better staff scheduling and tighter monitoring of the Person Minutes Per Ticket KPI by which we measure efficiency of our restaurant staff. Improved staff scheduling resulted in a decrease in staff overtime. In the third quarter of 2006, we began a comprehensive programme of analysing and implementing appropriate best practices from our Central European operations, including analysis of work organisation, adapting time schedules to better meet business needs, reengineering menu recipes to reduce production steps, initial testing of some partially pre-cooked/prepared products and shifting some in-restaurant production in Moscow to our central kitchen facility. We also decreased our total headcount in 2006.

In conjunction with these measures, we increased salaries by approximately 20% for key high-turnover positions in order to improve our long-term ability to perform to high quality service and timeliness standards, which off-set some of the savings realised from the above initiatives but which, in the long-term, should contribute to increased productivity and reduction of payroll costs as experienced employees, although more expensive, are retained, work more effectively and thereby reduce training costs.

For the year ended 31 December 2006, rent increased by 1.2% as a percentage of revenue from restaurants as compared with the year ended 31 December 2005 due to an increase in average rent expenses per square metre and an increase in the number of restaurants and total space rented in 2006 as compared with 2005.

For the year ended 31 December 2006, loyalty programme discounts decreased by 0.6% as a percentage of revenue from restaurants as compared with the year ended 31 December 2005. Such decrease is mainly due to the replacement of the Honored Guest Programme (HGP) in Moscow with the MALINA™ Programme, which reduced our loyalty programme transaction costs from approximately 10% of revenues per transaction under HGP to approximately 5% of revenues per transaction under MALINA™.

For the year ended 31 December 2006, restaurant equipment depreciation decreased by 1.4% as a percentage of revenue from restaurants as compared with the year ended 31 December 2005. This decrease takes into account depreciation charges in 2006 and 2005 of US$501 thousand and US$2,246 thousand, respectively, from the reassessment of the useful life of equipment in our regional Rostik's restaurants that were transferred to RG Restaurant Alliance Holdings without consideration (in Omsk and Novosibirsk in 2005 and in Samara in 2006). Excluding these one-off charges, for the year ended 31 December 2006, restaurant equipment depreciation decreased by 0.2% as a percentage of revenue from restaurants as compared with the year ended 31 December 2005.

Gross Profit

Gross profit is the difference between revenue and cost of sales.

For the year ended 31 December 2006, the Group's gross profit increased by 36.6% to US$80,725 thousand from US$59,105 thousand for the year ended 31 December in 2005. The increase in gross profit was due to a 31.9% increase in revenue to US$218,626 thousand for 2006 from US$165,712 thousand for 2005 and to a less than proportional increase of 29.4% in the cost of sales to US$137,901 thousand for 2006 from US$106,607 thousand for 2005.

Selling, General and Administrative Expenses

For the year ended 31 December 2006, the Group's SG&A expenses increased by 27.4% to US$62,734 thousand in 2006 from US$49,239 thousand in 2005. As a percentage of total revenues, SG&A expenses decreased to 28.7% for the year ended 31 December 2006 from 29.7% for the year ended 31 December 2005.

SG&A expenses include: (i) payroll and related taxes (above restaurant level); (ii) advertising; (iii) start-up expenses for new restaurants; (iv) rent (above restaurant level); (v) financial and legal services; (vi) materials (items used in restaurants, such as furniture, stationary and cleaning supplies); (vii) the increase in the allowance for doubtful accounts and write-offs of other receivables; (viii) other services; (ix) maintenance and repair services; (x) depreciation and amortisation; (xi) transportation services; (xii) utilities; (xiii) bank services; (xiv) laundry and sanitary control; (xv) franchising fees; and (xvi) other expenses.

The table below shows the composition of SG&A expenses for the years ended 31 December 2006 and 2005:

	Year ended 31 December 2006 (US$ thousand)	Percentage of total revenue	Year ended 31 December 2005 (US$ thousand)	Percentage of total revenue	Year-on-year change (%)
Payroll and related taxes (above restaurant level)	14,546	6.7%	10,436	6.3%	39.4%
Advertising	6,060	2.8%	3,408	2.1%	77.8%
Start-up expenses for new restaurants	5,744	2.6%	7,675	4.6%	(25.2)%
Rent (above restaurant level)	5,009	2.3%	4,937	3.0%	1.5%
Financial and legal services	4,883	2.2%	4,803	2.9%	1.7%
Materials	4,608	2.1%	3,841	2.3%	20.0%
Increase in the allowance for doubtful accounts and write-offs of other receivables	3,574	1.6%	1,274	0.8%	180.5%
Other services	3,298	1.5%	2,923	1.8%	12.8%
Maintenance and repair services	2,823	1.3%	1,456	0.9%	93.9%
Depreciation and amortisation	1,931	0.9%	1,448	0.9%	33.4%
Transportation services	1,449	0.7%	1,071	0.6%	35.3%
Utilities	1,229	0.6%	1,301	0.8%	(5.5)%
Bank services	1,202	0.5%	800	0.5%	50.3%
Laundry and sanitary control	781	0.4%	269	0.2%	190.3%
Franchising fees	708	0.3%	953	0.6%	(25.7)%
Other expenses	4,889	2.2%	2,644	1.6%	84.9%
Total	**62,734**	**28.7%**	**49,239**	**29.7%**	**27.4%**

For the year ended 31 December 2006, expenses on payroll and related taxes increased by 0.4% as a percentage of total revenue as compared with the year ended 31 December 2005. This increase reflected the needs of a growing company and the addition of highly skilled personnel as the Company pursues a more public profile. The increase also reflects increased levels of competition in the market for qualified personnel. These factors resulted in the rise of base salaries of office personnel by 35%, an increase of 11% in the total number of office personnel and the creation of several new top and middle management positions at the headquarters level.

For the year ended 31 December 2006, advertising expenses increased by 0.7% as a percentage of total revenue as compared with the year ended 31 December 2005. This increase was due to a major marketing effort using television advertising for IL Patio, undertaken by the Group to increase sales and build brand awareness. We are the first casual dining company in Moscow and the Russian regions to use mass media advertising for its restaurants.

For the year ended 31 December 2006, start-up expenses for new restaurants decreased by 2% as a percentage of total revenue as compared with the year ended 31 December 2006. This decrease is due to a higher percentage of openings in the Russian regions, where market conditions still allow for a rent-free construction period, and a lower average construction time, in 2006 as compared with 2005. The start-up expenses for new restaurants in 2005 included those associated with the launch in Moscow of four major Multibrand or Combo complexes.

For the year ended 31 December 2006, expenses on rent increased in absolute terms by 1.5% as compared with the year ended 31 December 2005, consistent with the normal course of business and primarily due to the rise in inflation.

For the year ended 31 December 2006, expenses on financial and legal services decreased by 0.7% as a percentage of total revenue, though increased in absolute terms by 1.7%, as compared with the year ended 31 December 2005, consistent with the normal course of business and primarily due to the rise in inflation.

For the year ended 31 December 2006, expenses on materials decreased by 0.2% as a percentage of total revenue as compared with the year ended 31 December 2005 mainly due to the rise in purchases of materials used in restaurants that is consistent with the growth in the number of restaurants.

For the year ended 31 December 2006, expenses related to the increase in the allowance for doubtful accounts and write-offs of other receivables increased by 0.8% as a percentage of total revenue as compared with the year ended 31 December 2005, mainly due to the write-off of trade and other receivables, including, primarily, the write-off of US$1,252 thousand of receivables from PBO Service LLC due to thorough prudent review of old balances with our suppliers.

For the year ended 31 December 2006, expenses on maintenance and repair services increased by 0.4% as a percentage of total revenue as compared with the year ended 31 December 2005, representing a year-on-year growth of 93.9%. The increase was due to a rise in expenses relating to the expansion or restyling of the interior of certain Moscow restaurants, in particular, the replacement of salad bars with additional seating in IL Patio restaurants. See "— Cost of Sales."

For the year ended 31 December 2006, other expenses increased by 0.6% as a percentage of total revenue as compared with the year ended 31 December 2005 mainly due to additional expenses on staff training, including the programme for management, additional restaurant staff development trainings and other professional trainings.

Foreign Exchange Gains/(Losses), Net

For the year ended 31 December 2006, the Company experienced a net foreign exchange gain of US$672 thousand in 2006 as compared with a net foreign exchange loss of US$644 thousand in 2005, resulting primarily from fluctuations in the RR/US$ exchange rate and its impact on the Rouble value of the Company's Rouble-denominated and U.S.-dollar-denominated debt.

Other Operating Gains/(Losses), Net

For the years ended 31 December 2006 and 2005, the Company experienced other net losses of US$6,089 thousand and US$591 thousand, respectively.

Other net operating gains/losses include (i) the gain from the sale of a trademark; (ii) the loss on the disposal of non-current assets; and (iii) other income/(expenses).

The table below indicates the other net operating gains and losses for the years ended 31 December 2006 and 2005:

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)
Trademark sale	—	421
Disposal of non-current assets	(2,371)	(1,336)
Other income/(expenses), net	(3,718)	324
Total	**(6,089)**	**(591)**

In 2005, the Group experienced a gain of US$421 thousand due to the assignment of "Rostik's" worldwide intellectual property to Yum! Restaurants International S.a.r.l., a third party, for US$15,000 thousand less US$12,000 thousand in compensation to the patent inventor and US$2,579 thousand in other related expenses. Rostik Investment Group Inc. served as a representative of the patent inventor.

In the years ended 31 December 2006 and 2005, the Group experienced losses of US$2,371 thousand and US$1,336 thousand, respectively, related to the disposal of non-current assets. The increase in losses on the disposal of non-current assets resulted from one-off write-offs of leasehold improvements mainly in connection with the cancellation of rental agreements.

For the year ended 31 December 2006, other net income/(expenses) mainly consist of the following: (i) one-off expenses and losses due to the closure of restaurants in Moscow and the Russian regions; (ii) one-off write-offs of inventory and materials; and (iii) one-off expenses due to the cancellation of leases and other long-term agreements.

Profit from Operating Activities

Profit from operating activities is gross profit less SG&A expenses, net foreign exchange gains/losses, and other net operating gains/losses.

For the year ended 31 December 2006, profit from operating activities increased by 45.7% to US$12,574 thousand from US$8,631 thousand for the year ended 31 December 2005. This increase was due to a 36.6% rise in the Group's gross profit to US$80,725 thousand from US$59,105 thousand, as discussed above, offset in part, by a 27.4% increase in SG&A expenses to US$62,734 thousand from US$49,239 thousand and by an increase in other operating losses.

Financial Income and Expense

For the year ended 31 December 2006, the Group's total financial income, which consists of interest income, decreased by 35.1% to US$705 thousand from US$1,086 thousand for the year ended 31 December 2005, due to a reduction in cash flow available for interest-bearing deposits.

For the year ended 31 December 2006, the Group's total financial expenses increased by 31.5% to US$12,152 thousand from US$9,238 thousand for the year ended 31 December 2005.

The Group's total net financial expenses for the years ended 31 December 2006 and 2005 were as follows.

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)	Year-on-year change (%)
Interest income	705	1,086	(35.1)%
Total financial income	**705**	**1,086**	**(35.1)%**
Interest expense	(7,409)	(7,688)	(3.6)%
Increase in amounts due under partnership agreements	(4,743)	(1,550)	206.0%
Total financial expenses	**(12,152)**	**(9,238)**	**31.5%**
Financial expense, net	(11,447)	(8,152)	40.4%

For the year ended 31 December 2006, the Group's interest expense decreased as compared with the year ended 31 December 2005 due to the following factors: First, average Rouble-denominated debt increased, while the average interest rate on Rouble-denominated debt decreased. Average U.S. dollar-denominated debt remained flat and the average interest rate on the U.S. dollar-denominated debt increased. Second, we benefited from exchange rate fluctuation of the U.S. dollar rate in 2006 by switching to short-term borrowings in U.S. dollars rather than in Roubles.

An increase of 206.0% in amounts due under partnership agreements to US$4,743 thousand in 2006 from US$1,550 thousand in 2005 was mainly due to an overall increase of restaurant free cash flow distributable to partners and an increase in the number of restaurants opened by regional partnerships (15 restaurants opened by regional partnerships at 31 December 2006).

Profit before Income Tax

Profit before income tax is profit/(loss) from operating activities plus (i) financial income and less (ii) financial expense, but before the application of income tax.

For the year ended 31 December 2006, profit before income tax increased by 135.3% to US$1,127 thousand from US$479 thousand in 2005. The increase was primarily due to a 45.7% increase in the Group's operating profit in 2006, offset, in part, by a 40.4% increase in total net financial expenses.

Income Tax

Income tax primarily relates to Russian corporate income tax. In accordance with the laws of the Russian Federation, the tax rate was 24% during 2005 and 2006. The charge for taxation is based on the taxable profit of each Group entity for each period and takes into account deferred tax attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

For the year ended 31 December 2006, the Group incurred a total income tax expense of US$348 thousand, which reflected an effective tax rate of 30.9%. For the year ended 31 December 2005, the Group received a total income tax benefit of US$120 thousand, which was the result of the deferred tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The recognition and reversals of temporary differences primarily relate to the depreciation of property, plant and equipment in excess of the depreciation for tax purposes, impairment of receivables, and provisions to write inventory down to net realisable value.

The Group's provision for income tax for the years ended 31 December 2006 and 2005 is as follows:

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)
Current tax	(2,372)	(839)
Deferred tax	2,024	959
Total income tax (expense)/benefit	**(348)**	**120**

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

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)
Profit before income tax	1,127	479
At Russian statutory income tax rate of 24%	(270)	(115)
Effect of differences in tax rates in countries other than the Russian Federation	1,036	1,440
Effect of non-deductible expenses and other non-temporary differences	(1,114)	(1,205)
Income tax (expense)/benefit reported in the consolidated income statement	**(348)**	**120**

Net Profit for the Year

As a result of the above, for the year ended 31 December 2006, net profit increased by 30.1% to US$779 thousand from US$599 thousand for the year ended 31 December 2005.

Liquidity and Capital Resources

In addition to financing its existing operations, the Group's liquidity needs arise principally from the need to finance the construction and opening of restaurants. In the periods under review, the Group has been able to meet the majority of its financial liquidity needs from net cash flow provided by operating activities, bank borrowings and the issue of Rouble bonds.

Capital Expenditures

The Group's total capital expenditures amounted to US$17,908 thousand in 2006 and US$18,944 thousand in 2005, excluding start-up expenses for new restaurants, which amounted to US$5,744 thousand in 2006 and US$7,675 thousand in 2005. The Group's capital expenditures during these periods have been largely driven by our restaurant expansion, as well as, to a lesser extent, reinvestment in our existing restaurants. The breakdown of capital expenditure by main components for the years ended 31 December 2006 and 2005 is as follows:

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)
Investment in new restaurants	15,124	16,449
Re-Investment in existing restaurants	1,849	1,370
Investment in IT	335	805
Other capitalised items	600	320
Total Capital Expenditures	**17,908**	**18,944**

Cash Flows

The table below sets forth our IFRS historical cash flow statement for the years ended 31 December 2006 and 2005:

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)
Cash and cash equivalents at beginning of year	**3,322**	**2,692**
Net cash flows from operating activities	23,962	23,558
Net cash flows used in investing activities	(15,662)	(12,531)
Net cash flows used in financing activities	(5,516)	(10,510)
Effect of exchange rate changes on cash and cash equivalents	117	113
Net increase in cash and cash equivalents	2,901	630
Cash and cash equivalents at end of year	**6,223**	**3,322**

Operating Activities. The Group's net cash flow provided by operating activities increased by 1.7% to US$23,962 thousand for the year ended 31 December 2006 from US$23,558 thousand for the year ended 31 December 2005. Net cash flow provided by operating activities was used to finance the Group's development by funding investing activities (in the amount of US$15,662 thousand in 2006 and US$12,531 thousand in 2005) and to serve our financing activities (in the amount of US$5,516 thousand in 2006 and US$10,510 thousand in 2005).

Working capital changes increased operating cash flow by US$612 thousand in 2006 and US$3,785 thousand in 2005 mainly due to the effect of non-recurrent transactions made in the course of the Group's reorganisation. Excluding this effect, net cashflow from operating activities increased by 18.1% to US$23,350 thousand in 2006 from US$19,773 thousand in 2005.

Investing Activities. The Group's net cash flow used in investing activities increased by 25% to US$15,662 thousand for the year ended 31 December 2006 from US$12,531 thousand for the year ended 31 December 2005. The most significant investing activities of the Group for these periods consisted of the acquisition of property, plant and equipment and intangible assets and loans issued to related and third parties.

With respect to the acquisition of property, plant and equipment, the Group paid US$17,908 thousand in 2006 and US$18,944 thousand in 2005. These acquisitions were primarily attributable to capital investments in the construction of new restaurants during the course of the Group's expansion and to capital investments in existing restaurants. In 2006, the Group also experienced a decrease in proceeds from repayment of loans issued to related parties and in interest received from bank deposits. The increased demand for funds to perform the Group's investing activities was partially offset by the increase in proceeds from disposal of property, plant and equipment.

Financing Activities. The Group's net cash flow used in financing activities decreased by 47.5% to US$5,516 thousand for the year ended 31 December 2006 from US$10,510 thousand for the year ended 31 December 2005. This was principally attributable to the decrease in 2006 as compared to 2005 in distributions to the parent company and in the repayment of related party loans.

Cash used in financing activities covered the additional amounts paid to partners (due to expansion of the number of restaurants operated under partnership agreements and overall increase in restaurant profitability) and funded the decrease in net proceeds received from bank loans in 2006 as compared to 2005. The Group also experienced a decrease in proceeds from related party loans.

Indebtedness

The following table sets out the Group's total debt as of 31 December 2006 and 2005.

	As at the year ended 31 December 2006 (US$ thousand)		As at the year ended 31 December 2005 (US$ thousand)		Year-on-year change (%)
Short-term debt	**31,774**	**45.1%**	**18,576**	**29.2%**	**71.0%**
Rouble denominated	9,821	13.9%	5,859	9.2%	
% of Short-Term Debt	31%		32%		
US$ Denominated	21,800	30.9%	11,736	18.5%	
% of Short-Term Debt	69%		63%		
Other currencies	153	0.2%	981	1.5%	
% of Short-Term Debt	0%		5%		
Long-term debt	**38,684**	**54.9%**	**44,924**	**70.8%**	**(13.9)%**
Rouble denominated	36,064	51.2%	39,383	62.0%	
% of Long-Term Debt	93%		88%		
US$ Denominated	2,221	3.2%	5,533	8.7%	
% of Long-Term Debt	6%		12%		
Other currencies	399		8	0.0%	
% of Long-Term Debt	1%		0%		
Total debt	**70,458**	**100.0%**	**63,500**	**100.0%**	**10.9%**

Short-term debt

During the period under review, the Group entered into a number of short-term loan agreements, principally with leading banks such as Sberbank, Bank Société Général Vostok (BSGV), Alfa Bank, UralSib and Amsterdam Trade Bank. The total amount outstanding under these loans as at 31 December 2006 was US$31,774 thousand, of which 31% was rouble-denominated and 69% was U.S. dollar-denominated.

In 2006, outstanding short-term Rouble- and U.S. dollar-denominated loans bore interest at average rates 10.5% and 10.3% per annum, respectively. In 2005, oustanding short-term Rouble and U.S. dollar-denominated loans bore interest at average rates 15.1% and 9.9% per annum, respectively.

Sberbank

In December 2004, the Group entered into a loan agreement amounting to US$2,500 thousand bearing interest of 10.5% per annum, which matured in June 2006. The loan was secured by a pledge of the Group's restaurant equipment with a net book value of US$2,692 thousand.

In December 2005, the Group entered into a revolving credit facility in the total amount of 155 million Roubles (US$5,385 thousand at the exchange rate as of 31 December 2005), bearing interest of 12% per annum and maturing in December 2006. The revolving credit facility was secured by a pledge of the Group's restaurant equipment with a net book value of US$5,612 thousand. The unutilised balance of the credit facility amounted to US$5,348 thousand as of 31 December 2005. In July 2006, the Group renewed the revolving credit facility for the total amount of 190 million Roubles (US$7,215 thousand at the exchange rate as of 31 December 2006), bearing interest of 9.5% per annum and maturing in tranches during January to April 2007. The credit facility was secured by a pledge of restaurant and office equipment and furniture with a net book value of US$3,212 thousand. The unutilised balance of the credit facility amounted to US$1,139 thousand as of 31 December 2006.

Bank Société Général Vostok (BSGV)

In November 2005, the Group entered into an unsecured revolving credit facility agreement in the amount of US$5,000 thousand, bearing interest of LIBOR+6% per annum, which matured in February 2006. In November 2006, the Group entered into a new revolving credit facility agreement in the amount of US$5,000 thousand bearing interest of LIBOR+5% per annum and maturing in March 2007 with an implicit extension to November 2007. The unutilised balance of the credit facilities amounted to nil and US$1,000 thousand as of 31 December 2006 and 2005, respectively.

Citibank

In April 2005, the Group entered into a number of credit facility agreements aggregating 43 million Roubles bearing interest of 9.25% per annum, which matured in January 2006. These credit facilities were secured by a guarantee of RIG Restaurants Limited, the parent company, as of 31 December 2005.

Alfa Bank

In September 2005, the Group entered into two credit facility agreements. The first credit facility amounting to 85.6 million Roubles (US$2,975 thousand at the exchange rate as of 31 December 2005), bore interest of 14% per annum and matured in March 2006. This credit facility was guaranteed by RIG Restaurants Limited, the parent company. The second credit facility amounted to 128.6 million Roubles (US$4,467 thousand at the exchange rate as of 31 December 2005), bore interest of 14.75% per annum and matured in November 2006. This credit facility was guaranteed by RIG Restaurants Limited and was secured by a pledge of the "Planet Sushi" trademark. The unutilised balance of the credit facilities amounted to US$3,078 thousand as of 31 December 2005.

In December 2006, the Group entered into another restricted non-revolving credit facility agreement, amounting to 300 million Roubles (US$11,393 thousand at the exchange rate as of 31 December 2006) for repayment of bonds relating to the early put option, bearing interest of 11.5% per annum and maturing in June 2007. This credit facility is secured by a guarantee of RIG Restaurants Limited, the parent company.

UralSib

In August 2005, the Group entered into a credit facility agreement amounting to US$5,000 thousand bearing interest of 8.8% per annum and maturing in February 2006. The loan was secured by a pledge of part of a building provided by VAKO LLC, a related party, with a net book value of US$5,025 thousand and by a guarantee of RIG Restaurants Limited, the parent company, and OJSC Institute Stekla, an entity under common control, as of 31 December 2005. The unutilised balance of the credit facility amounted to nil as of 31 December 2005.

In December 2006, the Group entered into a new credit facility agreement amounting to US$8,000 thousand bearing interest of 10% per annum and maturing in December 2007. The loan is secured by a pledge of restaurant equipment with a net book value of US$4,815 thousand. The unutilized balance of the credit facility amounted to nil as of 31 December 2006.

Amsterdam TB

In August 2006, the Group entered into a loan agreement amounting to US$4,000 thousand bearing interest of Libor +3.7% per annum and maturing in November 2007. The loan is guaranteed by RIG Restaurants Limited, the parent company, as of 31 December 2006. The loan agreement contains covenants that limit the indebtedness of Rosinter Restaurants LLC, a Group entity.

Long-term debt

The total amount outstanding under long-term loans as at 31 December 2006 was US$38,684 thousand, of which US$2,221 thousand was U.S. dollar-denominated, bearing interest at rates that varied between 8.8% and 12.0% per annum, and US$36,064 thousand was Rouble-denominated, bearing interest at rates that varied between 9.2% and 10.75% per annum. The total amount outstanding under long-term loans as at 31 December 2005 was US$44,924 thousand, of which US$5,533 thousand was U.S. dollar-denominated, bearing interest at rates that varied between 8.5% and 10.7% per annum, and US$39,383 thousand was Rouble-denominated, bearing interest at rates that varied between 10.7% and 13.0% per annum.

The Group plans to broaden its relations with leading banks and to extend the volume of long-term borrowings with International Moscow Bank to US$7,000 thousand from US$4,800 thousand and to postpone repayment until 2010. The Group plans to continue negotiating new credit lines on a long-term basis, along with focusing on reducing the cost of its debt.

The liabilities are contractually repayable after the balance sheet date as follows as of 31 December 2006 and 2005:

	Year ended 31 December 2006 (US$ thousand)	Year ended 31 December 2005 (US$ thousand)
2007	—	4,857
2008	37,949	40,038
2009	374	37
2010	276	38
2011	121	—
Less: discount adjustment	(36)	(46)
Total long-term debt	**38,684**	**44,924**

Ukreximbank

During 2005, the Group obtained an unsecured credit facility in the amount of US$1,388 thousand bearing interest of 12% per annum and maturing in 2008. The unutilized balance of the credit facility amounted to US$183 thousand and US$773 thousand as of 31 December 2006 and 2005, respectively.

Sberbank

In September 2006, the Group obtained a loan in the amount of US$3,798 thousand bearing interest of 9.2% per annum and maturing in March 2008. The loan is secured by a pledge of restaurant equipment with a net book value of US$1,657 thousand.

Kazkommertsbank

During 2006, the Group obtained credit facilities in the total amount of US$1,891 thousand bearing interest of 12% per annum and maturing during 2010 and 2011. The credit facilities were secured by a pledge of restaurant equipment of Rosinter LLC Almaty, a subsidiary of the Group, with a net book value of US$553 thousand. The unutilised balance of the credit facility amounted to US$808 thousand as of December 31, 2006.

Bonds

The Group has been using the Russian capital markets for financing since 2002. Currently, it has two outstanding non-convertible bonds issues:

i) In July 2003, Rosinter Restaurants LLC registered with the Federal Securities Market Commission in Russia the issue of 400,000 non-convertible bonds with a face value of 1,000 Roubles each for an aggregate principal amount of 400 million Roubles. On 7 July 2004, the Group issued 330,371 of those bonds for an aggregate principal amount of 330 million Roubles. The bonds have 16 coupons payable quarterly. Interest rates for each coupon vary from 11% to 12% per annum. During 2005, the Group redeemed part of this issue. The outstanding balance as of years ended 31 December 2005 and 2006 was 144,231 bonds in the amount of US$5,010 thousand (at the exchange rate as of 31 December 2005) and US$5,477 thousand (at the exchange rate as of 31 December 2006), respectively. The bonds are due in July 2008.

ii) In December 2005, Rosinter Restaurants LLC, a Group company, issued 1,000,000 non-convertible bonds with a face value of 1,000 Roubles each for an aggregate principal amount of 1,000 million Roubles (US$34,744 thousand at the exchange rate as of 31 December 2005). The bonds have 10 coupons payable semi-annually with variable interest rates declared by the issuer prior to each coupon period. The interest rate for the two coupon periods in 2006 was 11%. The interest rate for the three coupon periods ending May 2008 is 10.75%. During 2006, bondholders exercised their early redemption option, which resulted in a decrease of bonds of US$10,600 thousand. The outstanding balance as of 31 December 2006 is 711,495 bonds in the amount of US$27,021 thousand (at the exchange rate as of 31 December 2006). The bonds are due on 26 November 2010. The bondholders have an early redemption option exercisable in May 2008.

Contingent Liabilities

Russian Federation Tax and Regulatory Environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. Russian tax and currency 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, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, 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. However, the tax regime in Russia following the recent cases has become even less predictable. See "Risk Factors — Risks Relating to the Russian Federation — Legislative and Legal Risks — Unlawful, selective or arbitrary government action may have an adverse effect on our business and the value of investments in Russia."

The Group utilised certain tax planning strategies providing tax savings to the Group that reduced its costs of operations in 2005 and 2006. See Note 23 to the Financial Statements. Management have substantially eliminated these tax planning strategies with effect from 31 December 2006. While management believes that its interpretation of the relevant legislation is appropriate, these tax planning strategies may be challenged by the Russian tax authorities. Thus, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of 31 December 2006. The amount of possible liabilities that could be incurred in the event that the tax authorities challenge the Group's position on certain tax matters and certain tax practices at 31 December 2006 could include the amount of the aforementioned tax savings, and fines, penalties and interest assessed, if any. As of 31 December 2006 and 2005, management believes that its interpretation of the relevant legislation is appropriate and that it is likely that the Group's tax position will be sustained. See "Risk Factors — Risks Relating to the Russian Federation — Legislative and Legal Risks — Weaknesses and changes in the Russian tax system could materially adversely affect our business and the value of investments in Russia."

Disclosures About Market Risks

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to market movements in interest rates, foreign exchange rates and credit risk. A description of the Group's risk management policies in relation to these risks follow.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term credit facilities. The majority of interest rates on long-term credit facilities of the Group are fixed and these are disclosed in Note 13 to the Financial Statements.

The Group has no significant exposure to interest rate risk because the majority of its loans and bonds have a clearly defined stable interest rate, other than short-term credit facilities that expose the Group to the risk of refinancing at different interest rates. The Group does not hedge its interest rate risk.

Currency Risk

Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has no significant exposure to foreign currencies as the major part of the Group's operations and borrowings are made in Roubles.

Credit Risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributable to its other receivables. The carrying amount of other receivables, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Critical Accounting Policies

Our accounting policies are more fully described in Note 4 to the Financial Statements included elsewhere in this Offering Memorandum. Moreover, certain of our accounting policies are particularly important to the presentation of our results of operations and require the application of significant judgment by our management. In applying these policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates used in the preparation of our financial statements. These estimates are based on our previous experience, the terms of existing contracts, information available from other outside sources and other factors, as appropriate. Our management believes that, among others, the following accounting policies that involve management judgments and estimates are the most critical to understanding and evaluating our reported financial results.

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in profit or loss.

Impairment of property, plant and equipment

Generally, the Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, which is determined as the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on specific analysis of the major outstanding prepayments and accounts receivable balances and historical write-off experience. If the financial condition of those suppliers were to deteriorate, actual write-offs might be higher than expected.

Allowance for slow moving and damaged inventory

Management of the Group regularly reviews the need to provide for slow moving or damaged inventory based on monthly aging and inventory turnover report as well as based on physical inventory observation.

Deferred tax assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respect to the relevant tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from such estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In such an event, the assessment of future utilisation of deferred tax assets must be reduced and this reduction must be recognised in profit or loss.

Start-up expenses for new restaurants

Start-up expenses for new restaurants represent costs related to the construction and the opening of new restaurant locations. Such expenses include rent and payroll expenses, new personnel training and other overhead expenses that arose before the opening of new restaurants. Start-up expenses for new restaurants are recognised as general and other operating expense in the accounting period the related work was performed.

Adoption of New and Revised International Financial Reporting Standards

The Group has adopted IFRS effective at December 31, 2006 from January 1, 2005, the date of transition to IFRS.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures": IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

IAS 1 (amended 2005) "Presentation of Financial Statements — Capital Disclosures": The amendment of IAS 1 "Presentation of Financial Statements — Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

IFRS 8 "Operating Segments": IFRS 8 "Operating Segments" requires disclosure of information about an entity's operating segments. The provisions are effective for reporting periods beginning on or after 1 January 2009.

IFRIC 8 "Scope of IFRS 2": IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after 1 May 2006.

IFRIC 9 "Reassessment of Embedded Derivatives": IFRIC 9 clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

IFRIC 10 "Interim Financial Reporting and Impairment": Applying IFRIC 10, an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 "IFRS 2 — Group and Treasury Share Transactions": IFRIC 11 addresses the issue as to whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

IFRIC 12 "Service Concession Arrangements": IFRIC 12 addresses the accounting issues relating to the service concession arrangements. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's results of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

DIVIDEND POLICY

We have not paid any dividends in the past. For the foreseeable future, we do not expect to declare and pay any dividends but will reinvest our net profit to fund our future growth. In any event, all dividend payments must be recommended by our board of directors and approved by our general shareholders' meeting. Neither the board of directors nor our shareholders are under any obligation to recommend and approve, respectively, any dividend payments.

Our ability to pay dividends is also restricted by Russian law and our Charter (see "Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital — Dividends") and dependent upon the receipt of dividends and other distributions from our subsidiaries which is in turn contingent upon the sufficiency of their earnings, cash flows and distributable reserves and their ability to make, in accordance with relevant legislation, company law and exchange controls, dividend payments to us. See "Risk Factors — Risks relating to our business and industry — Our business depends on the results of operations and financial condition of our subsidiaries and may be adversely affected by legal, contractual or other limitations on such subsidiaries."

CAPITALISATION

The following table sets out the Group's cash and cash equivalents, short term borrowings and capitalisation as at 31 December 2006 and as adjusted to give effect to the Closed Subscription. The following table should be read in conjunction with "Summary Consolidated Historical Financial Information," "Use of Proceeds," "Business" and the Financial Statements included elsewhere in this Offering Memorandum.

	As at 31 December 2006	
	Historical	As adjusted(1)
	(thousands of U.S. dollars)	
Cash and cash equivalents	6,223	66,223
Short-term borrowings, including the current portion of long-term borrowings	31,774	31,774
Long-term borrowings, excluding the current portion of long-term borrowings	38,684	38,684
Shareholder's equity		
Share capital	58,545	71,632
Additional paid-in capital	14,523	61,436
Accumulated loss	(99,509)	(99,509)
Translation difference	2,593	2,593
Total (deficit on equity)/shareholder's equity	(23,848)	36,152
Total capitalisation(2)	14,836	74,836

(1) Adjusted to give effect to the application of the proceeds of the Closed Subscription.

(2) Total of long-term borrowings, excluding the current portion of long-term borrowings, and total (deficit on equity)/ shareholders equity.

(3) As of 30 April 2007, our long-term borrowings (excluding the current portion of long-term borrowings) comprised US$47,421 thousand and our short-term borrowings (including the current portion of long-term borrowings) comprised US$24,748 thousand.

RELATED PARTY TRANSACTIONS

We enter into various transactions with related parties. For a description of these transactions, see Notes 2 and 12 to our Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting the Presentation of the Group's Financial Results in the Financial Statements."

MANAGEMENT AND CORPORATE GOVERNANCE

Corporate Governance

Our corporate governance is carried out in accordance with the Joint Stock Companies Law, other applicable laws and regulations, the Charter and our internal regulations. We comply with the corporate governance regime of the Russian Federation, although many concepts of corporate governance that are prevalent in Western Europe and the United States are considerably less developed in Russia.

As a part of our corporate governance strategy, our board of directors (the "**Board of Directors**") established the audit committee (the "**Audit Committee**") and the human resources and remuneration committee (the "**Remuneration Committee**").

Our main decision-making bodies are the general shareholders' meeting (the "**General Shareholders' Meeting**"), the Board of Directors, the management board (the "**Management Board**") and the president (the "**President**").

General Shareholders' Meeting

The General Shareholders' Meeting is our supreme management body consisting of all our shareholders that is empowered to take decisions on principal issues of our business. For a description of the powers and procedures of the General Shareholders' Meeting, see "Description of Share Capital and Certain Requirements of Russian Legislation-General Shareholders' Meetings."

Board of Directors

The Board of Directors is responsible for our overall management and presently consists of seven members. For a description of the Board of Directors, see "Description of Share Capital and Certain Requirements of Russian legislation — Board of Directors." The names of the current members, together with their respective current positions, previous positions and qualifications are set out below. The business address of each of the members of the Board of Directors is Dushinskaya Street 7, Building 1, Moscow, 111024, Russia.

1) Rostislav Ordovsky-Tanaevsky Blanco, 48 years old, is a founder of the Group and our principal beneficial shareholder and was our CEO until 2006. Mr. Ordovsky-Tanaevsky Blanco is a founder of Rostik International CA, Venezuela, and its president from 1981 until the present. Mr. Ordovsky-Tanaevsky Blanco founded Focus, the exclusive Kodak representative and distributor in the CIS from 1988 until 1995, during which time it developed into a CIS-wide distribution network and 400+ store photography business. Mr. Ordovsky-Tanaevsky Blanco was the co-founder and director of Video Express and Bradly from 1983 to 1990, which had exclusive video distribution rights from Walt Disney in Venezuela. In 1981, Mr. Ordovsky-Tanaevsky Blanco graduated from Simon Bolivar University with a specialisation in chemical engineering.
2) Pedro Mario Burelli, 49 years old, joined the Group as our non-executive director in 1997 and is currently the vice chairman of our board of directors. Mr. Burelli has been the Managing Partner of B&V Consultants since 1999. Mr. Burelli served as a member of the Executive Board of Petroleos de Venezuela (PDVSA) from 1996 to 1999. From 1986 to 1996, Mr. Burelli worked at J.P.Morgan where he held positions including Head of Latin America for J.P.Morgan Capital Corporation, the principal investment arm of J.P.Morgan; Senior Banker for the Andes, Central America and Caribbean region and Director of Mergers & Acquisitions for the Iberian Peninsula based in Madrid. Mr. Burelli holds a BA from the University of Southern California and an MPA Degree from the Kennedy School of Government at Harvard University.
3) Stephen Finn, aged 60, joined the Group as our non-executive director in 1997. Mr. Finn has served as the Chairman and Chief Executive Officer of Leeann Chin, Inc., a leading U.S. chain of high quality QSR Asian restaurants, since 1997. From 1992-1997, Mr. Finn was President and Chief Executive Officer of Bruegger's Corporation, a U.S. chain of bagel bakery restaurants that grew during his tenure from 39 locations with total annual sales of approximately U.S.$20 million to 400 locations with total annual sales of approximately U.S.$300 million. From 1983-1992, Mr. Finn worked for the Burger King Corporation, serving in various senior level management positions, concluding as Senior Vice President and Managing Director of Europe and the Middle East, and was based in London. He also served as a member of six member management committee of Burger King Corporation which set policy and strategy for the company worldwide. Mr. Finn received a B.A. in political science from American International College in Springfield, Massachusetts, U.S.A., and a M.A. in international relations and Economics from the University of Virginia, Charlottesville, Virginia, U.S.A.

4) David Fitzjohn, 51 years old, joined the Group in 2006 as our non-executive director and is currently the Chairman of the Remuneration Committee. Mr. Fitzjohn served as the Managing Director at Yum! Brands Inc. Europe (KFC, Pizza Hut and Taco Bell Restaurants) from 2003 to 2006 and as the Head of Restaurant Development at Yum! Restaurants International from 1998 to 2003. Previously, he served with the Burger King Corporation as the Worldwide Head of Restaurant and Market Development from 1994 to 1998, Division President from 1990 to 1994 and as Managing Director of the Asia Region during 1994. Prior to 1990, Mr. Fitzjohn occupied various executive managing positions with Burger King, Grand Metropolitan and Laura Ashley and has thus been involved in restaurant and retail companies for twenty years. Mr. Fitzjohn is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Royal Society of Arts in the U.K. Mr. Fitzjohn graduated from Reading University in the U.K. with a B.S. Degree in Estate Management and a M.Phil. in Environmental Planning.

5) Maurice Worsfold, 72 years old, joined the Group in 1995 as the Chief Financial Officer, from 1997 assumed the responsibilities of the corporate secretary of RIG Restaurants, Ltd., was appointed as alternate non-executive director of the board of directors of RIG Restaurants, Ltd. in 2002 and is currently the Chairman of the Audit Committee. Mr. Worsfold is President of M&N International, Inc. Previously, Mr. Worsfold served as the Vice President, Audit and Controls of the North Western Corporation from 2003 to 2004. From 2000 to 2002, Mr. Worsfold served as the Chief Financial Officer of Vimpelcom. In 1999, Mr. Worsfold was the Chief Financial Officer of Clear Water, Inc. Previously, Mr. Worsfold completed a 25-year career with IBM, holding executive positions in the United States and Canada. Mr. Worsfold holds a B.B.A. from the Chartered Institute of Corporate Secretaries (U.K., 1965) and a B.A. from the University of Waterloo (Canada, 1987).

6) Vladimir Mekhrishvili, 50 years old, joined the Group in 1992 and until 1995 served as finance and executive director for the Group. Mr. Mekhrishvili has been a Senior Vice President at Rostik International CA since 2004. From 1995 until 2006, Mr. Mekhrishvili held the position of chief financial officer at RIG Restaurants Limited and was a chairman and a member of the board of directors of various Group companies. Before joining the Group, Mr. Mekhrishvili headed the budget department at USSR State Bank branch from 1978 to 1981, worked as deputy director for economic affairs with an electronic equipment company and as regional finance director for the Marco Polo international hotel chain. In 1978, Mr. Mekhrishvili graduated from Tbilisi State University with a specialisation in economics and has since completed various courses on corporate finance, risk management and valuation (at the Institute of Chartered Accountants of England and Wales) and securities management (at London Business School). Mr. Mekhrishvili holds a director professionalism certificate from the National Association of Corporate Directors.

7) Svetlana Knyazeva, 29 years old, joined the Company in 2002 as our International Counsel and has been the Head of our Legal Department since 2003. Before joining the Company, Ms. Knyazeva served as in-house counsel with Sun Chemical Moscow Printing Inks, from 2001 to 2002. From 2001 to 2004, Ms. Knyazeva was a Lecturer at the Russian Foreign Trade Academy. In 2000, Ms. Knyazeva graduated from the Moscow State University with a specialisation in law.

Audit Committee

The Audit Committee is responsible for the appointment and dismissal of external auditors and for the review of our financial results and annual accounts. The Audit Committee evaluates the efficiency of our internal control procedures and proposes methods for improvement of control procedures. In addition, the Audit Committee makes preliminary decisions and prepares drafts of decisions of the Board of Directors on various issues relating to distribution of our profit, evaluation of our property, the auditors' compensation, internal risk management and control procedures, approval of major transactions and interested party transactions and other issues falling within the competence of the Board of Directors. The Audit Committee supervises our tax, business and management accounting.

The Board of Directors appoints the Audit Committee from among its members. The current Audit Committee was appointed on 13 April 2007. The Audit Committee currently consists of three members. The names of the current members are set out below:

- Maurice Worsfold (Chairman)
- David Fitzjohn
- Vladimir Mekhrishvili

Remuneration Committee

The Remuneration Committee is responsible for determining the salaries and benefits of the members of the Board of Directors, members of the internal audit commission and executive officers. It also determines the criteria for the candidate members of the Board of Directors, President and other executive officers and monitors and evaluates the performance of the President and our other executive officers.

The Board of Directors appoints the Remuneration Committee from among its members. The current Remuneration Committee was appointed on 13 April 2007. The Remuneration Committee currently consists of three members. The names of the current members are set out below:

- David Fitzjohn (Chairman)
- Stephen Finn
- Rostislav Ordovsky-Tanaevsky Blanco

Management Board

The Management Board is our collective executive body responsible for our day-to-day management. For a description of the Management Board, see "Description of Share Capital and Certain Requirements of Russian legislation — Management Board." The Management Board currently consists of four members — the President and three vice-presidents (the "**Vice-Presidents**"). The names of our President and Vice-Presidents, together with their respective positions and qualifications, are set out below. The business address of each of the members of the Management Board is Dushinskaya Street 7, Building 1, Moscow, 111024, Russia.

- Lori Ann Daytner, 40 years old, has been the President and the Chairman of the Management Board since 2006. Ms. Daytner has also been the Director of RIGS Services Limited and of AmInvest Limited and the chief executive officer of Rosinter Restaurants Limited since 2006. Ms. Daytner joined the Group as Training Manager in 1992 and subsequently served as Deputy Head of Operations (1993-1996), Corporate HR Director (1996-1998), Director of New Business Development (1998) and General Manager of European Operations (from 2001). Ms. Daytner received a Bachelor's Degree in Public Relations from Slippery Rock University (USA) in 1989.
- Alexander Roslavtsev, 34 years old, has been the Chief Financial Officer and the Vice-President since 2006 and is responsible for overseeing the strategic direction of our financial operations. He has also served as the Director of AMInvest Limited since 2006. In 2006, Mr. Roslavtsev was the financial director of RosInter LLC. Previously, Mr. Roslavtsev worked as a financial manager with Intel A/O from 2005 to 2006 and with the Russian representative office of Intel Technologies, Inc., from 2003 to 2004. Mr. Roslavtsev was the financial director of TIG Eldorado in 2003 and served as the budget coordinator with the Ford Motor Company from 2000 to 2003. Previously, Mr. Roslavtsev worked as an auditor for KPMG UK and KPMG Russia from 1995 to 2000. In 1995, Mr. Roslavtsev graduated from Moscow State Aviation Institute (Technical University) with a Joint Masters degree in economics and engineering. Since 2001, Mr. Roslavtsev has been a Member of the Association of Chartered Certified Accountants (ACCA).
- Maral Charyeva, 44 years old, has been a Vice President since 2006. Ms. Charyeva is the Director of Moscow Business Unit and is in charge of our restaurant operations and expansion in Moscow. Ms. Charyeva joined the Group in 2004. Prior to joining us, Ms. Charyeva was a General Manager with largest Russian cinema chain, "Formula Kino," from 2001 to 2003. Previously, Ms. Charyeva served as the President of the computer retail chain Compulink Trade and, before that, as a General Director with paging service operator Vesso-Link Yedinaya Pagingovaya. In 1980, Ms. Charyeva graduated with a degree in Industrial Planning from the Turkmen Institute of National Economy. Ms. Charyeva received a Ph.D. in Economics from the Plekhanov Academy of National Economics in 1984 and teaches Strategic Management at the Academy of National Economy.

- Oleg Panichev, 40 years old, has been a Vice President since 2006. Mr. Panichev is the Director of Regional Business Unit and is in charge of our restaurant operations and expansion in the Russian regions and in the CIS; presentation of each regional partnership's business plans for new restaurants to our management; and monitoring of project status and budgets. Mr. Panichev has served as the director of the department of regional management with Rosinter Restaurants LLC since 2002. Mr. Panichev began his career with us as a waiter at Le Chalet, in 1992. From 2000 to 2001 he was the deputy general director of Rostiks LLC. In 2001, Mr. Panichev graduated from the Academy of National Economy under the RF Government with an MBA degree in International Business: Organization Financial Management (Administration). In 1991, he received a Diploma of Trade Education from the Moscow College for Small & Restaurant Businesses Employees.

President

Our President, Lori Ann Daytner, is also our CEO. Ms. Daytner was appointed by the decision of the Selling Shareholder on 1 September 2006. For a description of the President's powers, see "Description of Share Capital and Certain Requirements of Russian Legislation — President." For a description of the positions and qualifications of the President, see "— Management Board."

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date hereof, our share capital comprises 10,000,000 ordinary shares. The table below sets forth certain information regarding the beneficial ownership of our share capital (i) as of the date of this Offering Memorandum, and (ii) as of the date of completion of the Offering, the Closed Subscription and the Shareholder Transfers.

Beneficial shareholders	Before the Offering[1]		After the Offering, the Closed Subscription and the Shareholder Transfers[2]	
	Number of shares	*Percent of share capital*	*Number of shares*	*Percent of share capital*
Mr. Rostislav Ordovsky-Tanayevsky Blanco[3]	8,583,500	85.835%	7,373,725	61.292%
Minorities[4]	1,416,500	14.165%	1,531,732	12.732%
Free float	0	0%	3,125,000	25.976%
Total	10,000,000	100%	12,030,457	100%

(1) RIG Restaurants Limited, the Selling Shareholder, is the direct owner of all 10,000,000 shares.

(2) Shareholder Transfers represent the transfers of minority beneficial ownership to our partners in Belarus and Kazakhstan and to some of our employees.

(3) Mr. Rostislav Ordovsky-Tanayevsky Blanco is our founder and the chairman of the Board of Directors.

(4) Minorities comprise Mr. Rostislav Ordovsky-Tanayevsky Blanco's business partners and associates and some of our employees.

Save as disclosed above, there are no other persons who could exercise control over the Company, and no person has any right or option to acquire ordinary shares.

To our knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control over us.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

Set out below is a summary of material information concerning our share capital and applicable Russian legislation, including a description of certain provisions of the Charter. This description does not purport to be complete and is qualified in its entirety by reference to the Charter and applicable laws and regulations of the Russian Federation.

Purpose

Article 3 of the Charter provides that our primary purpose is to earn profit and to implement economic and social interests of our shareholders.

Description of Share Capital

General

Under Russian legislation, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the securities legislation of the Russian Federation.

Prior to November 2006, our share capital amounted to RR2,470,000,000, consisting of 10,000,000 shares with a par value of RR247. On 26 December 2006, we decreased our share capital as a result of a spin off of some of our non-restaurant companies and companies operating the Rostik's business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain factors affecting the presentation of the Group's financial results in the Financial Statements — Accumulated losses." Currently, our share capital is comprised of 10,000,000 issued ordinary shares with a par value of RR169.7 each, all of which are fully paid, issued and outstanding. We are authorised by our Charter to issue an additional 10,000,000 ordinary shares. Under Russian legislation, share capital refers to the aggregate par value of the issued and outstanding shares. No preferred shares are authorised or outstanding, and preferred shares may only be issued if amendments have been made to the Charter pursuant to a resolution of the General Shareholders' Meeting. Additionally, the Joint Stock Companies Law requires a company, acquiring any of its own shares, to dispose of such shares within one year of their acquisition or, failing that, to reduce its share capital. Such shares are non-voting and are referred to as treasury shares. As of the date of this Offering Memorandum, we had no treasury shares.

Rights attaching to ordinary shares

As required by the Joint Stock Companies Law and our Charter, all of our ordinary shares have the same par value and grant identical rights to their holders. Fully paid ordinary shares, except for treasury shares, give their holder the right to:

- transfer our shares without the consent of our other shareholders;
- receive dividends;
- participate in General Shareholders' Meetings and vote on all matters within the competence of General Shareholders' Meeting, including through a representative acting on the basis of a power of attorney;
- request the repurchase by us of all or some of our voting shares owned by such shareholder, if such shareholder voted against, or did not participate in the voting on the decision approving, any:
  - reorganisation;
  - conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of our assets; or
  - new version or amendment to the Charter limiting shareholders' rights;
- upon our liquidation, receive a proportionate amount of our property after fulfilment of our other obligations;
- access our documents, except for accounting documents and minutes of the Management Board;
- exercise pre-emptive rights that arise upon the issuance of new shares and securities convertible into shares, on a pro rata basis to their existing holdings of shares of such type, when such shares or securities are placed through an open subscription; and
- exercise other rights of a shareholder provided by the Charter and Russian legislation.

In addition, shareholders holding, individually or with other holders, not less than one percent of the voting shares may obtain a list of persons entitled to participate in the General Shareholders' Meeting. Shareholders holding, individually or with other holders, not less than two percent of the voting shares may, within the term specified by the Joint Stock Companies Law and the Charter, propose matters for the agenda of the annual shareholders' meeting and nominate candidates to the Board of Directors, the Management Board, the position of CEO and the internal audit commission. Pursuant to the Joint Stock Companies Law, shareholders holding, individually or with other holders, 10% or more of voting shares, may request convocation of an extraordinary General Shareholders' Meeting by the Board of Directors or an unscheduled audit by the internal audit commission. Shareholders holding, individually or with other shareholders, not less than 25% of voting shares have access to accounting documents and minutes of meetings of the Management Board.

Shareholders holding, individually or with other holders, not less than one percent of outstanding ordinary shares may bring a claim against a member of the Board of Directors, a member of the Management Board, the CEO, managing company or a sole manager, if any, for their actions or omissions in exercising their corporate duties that resulted in losses incurred by the company where liability for such losses is prescribed by law. In addition, the Joint Stock Companies Law provides for the right of any shareholder to file a claim against a member of the Board of Directors, a member of the Management Board, the CEO, managing company or a sole manager, if any, for damages sustained by such shareholder as a result of a violation by such person of the provisions of the law relating to the protection of minority shareholders in the context of squeeze-out procedures.

Share acquisition above certain thresholds and anti-takeover protection

A person intending to acquire more than 30% of the voting shares (taking into account those it already holds together with its affiliates) has the right to make a public offer to other shareholders of the company to purchase their shares (a voluntary offer). Within 35 days after acquisition by any means of more than 30%, 50% or 75% of such shares, the acquirer must make a public offer to purchase the remaining shares from the shareholders (a mandatory offer). The acquirer's payment obligations arising from both voluntary and mandatory offers must be secured in each case by an irrevocable bank guarantee valid for at least six months after the expiration date of the relevant period within which the acquirer has to pay for the shares that it acquires as a result of such voluntary or mandatory offer.

At any time after the company receives a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing offer (that satisfies the requirements for voluntary or mandatory offers, as the case may be) to purchase that number of shares at a price that is not less than the price offered in the relevant voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of that offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the relevant voluntary or mandatory offer so that such person has the opportunity to amend its offer by increasing the purchase price and/or shortening the settlement period. The person who made the relevant voluntary or mandatory offer may also extend the acceptance period of its offer but no longer than until the expiration date of the acceptance period of a competing offer. The Joint Stock Companies Law provides that, during the acceptance period, the offeror may not acquire securities with respect to which it has made the public offer on terms other than the terms specified in such an offer. The acceptance period is determined by the offeror, subject to certain limitations set forth in the Joint Stock Companies Law and it may be no less than 70 days and no more than 90 days (in the case of voluntary public offers) or 80 days (in the case of mandatory public offers) from the date on which the public offer was received by the company. The holders of the securities to be acquired may accept the public offer by sending the offeror an application to sell their securities by mail, or by any other means provided for in the offer.

In addition, from the date upon which a voluntary or mandatory offer has been made until 20 days after the expiration of the period for acceptance of such voluntary or mandatory offer, decisions on share capital increases through an additional share issuance, approval of interested party and certain other transactions and issues may only be made by the General Shareholders' Meeting.

If, as a result of either a voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares (taking into account those it already holds together with its affiliates), it will have an obligation to:

- notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into shares; and
- purchase their shares and/or convertible securities upon the request of each such minority shareholder.

In addition, as an alternative to giving such notice, the acquirer has the right to deliver a mandatory buy-out request, requiring the minority shareholders to sell their shares. Any such buy-out offer or request must be secured by an irrevocable bank guarantee. As a general rule, these new buy-out mechanisms became effective as of 1 July 2006 and are available to persons that have acquired more than 95% of voting shares pursuant to a voluntary or a mandatory offer after such date. In addition, for a period of one year after 12 August 2006, such mechanisms are available to majority shareholders that, as of 1 July 2006, own more than 95% of the voting shares or, alternatively, own 85% of such shares and increase their stake to more than 95% through a voluntary offer made after such date. However, in each such case, the determination of the purchase price will require both a report of an independent appraiser and an expert opinion of a self-regulatory organisation of appraisers.

If the company is publicly traded, prior notice of the mandatory and voluntary offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. Buy-out offer or request in any case must be filed with the FSFM prior to their submission to the company. The FSFM may require revisions to be made to the terms of the offers and buy-out request (including the price) in order to bring them into compliance with the applicable rules.

Pre-emptive rights

The Joint Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription (*i.e.,* an offering to an unlimited number of acquirers) in an amount proportionate to their existing holding of shares. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares during a closed subscription (*i.e.,* an offering to a limited number of acquirers) if the shareholders voted against or did not participate in the voting on the decision approving such subscription. This pre-emptive right does not apply to a closed subscription made available only to existing shareholders, provided that, in such circumstances, each such shareholder may acquire shares or securities convertible into shares in an amount proportionate to their existing holdings. We must provide shareholders with written notice of the proposed sale of shares at least 45 days prior to the offering, during which time shareholders may exercise their pre-emptive rights. If the price of offered shares or securities convertible into shares is determined after the expiration of the pre-emptive rights, we must provide shareholders with a written notice of the proposed sale of shares which are subject to pre-emptive rights at least 20 days prior to the offering, during which time shareholders may exercise their pre-emptive rights.

Dividends

The Joint Stock Companies Law, the Charter and our dividend policy set forth the procedure for determining the dividends we distribute to its shareholders. We may declare dividends based on our first-quarter, six-month, nine-month or annual results. Dividends are recommended to a General Shareholders' Meeting by a majority vote of the Board of Directors, and approved by a majority vote at that General Shareholders' Meeting. A decision on quarterly, six-month and nine-month dividends must be taken within three months of the end of the respective period; a decision on annual dividends must be taken at the annual General Shareholders' Meeting. The dividend approved at the General Shareholders' Meeting may not be more than the amount recommended by the Board of Directors. Dividends are distributed to holders of our shares, determined as of the record date for the shareholders' meeting approving the dividends, within 60 days of the date of the shareholder resolution to approve the dividends, unless another term is provided by the shareholders' resolution. See "— General Meetings of Shareholders — Notice and Participation." Dividends are not paid on treasury shares, as defined under Russian law. The Joint Stock Companies Law allows dividends on ordinary shares to be paid only out of net profits calculated under RAS. A decision to pay dividends can be taken only if the following conditions have been met:

- the share capital of the company has been paid in full;
- the company has repurchased all shares tendered by shareholders having the right to request repurchase;
- the company does not meet and would not meet, as the result of the proposed dividend payment, the criteria for insolvency;

- the value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the amount of the company's share capital, the company's reserve fund and the excess of the liquidation value over the par value of the issued and outstanding preferred shares of the company; and
- in other cases provided by law.

If a company is prohibited, as a result of failure to comply with the above requirements, from paying a dividend that it has previously declared, it must pay such dividend as soon as it meets the above requirements.

Distributions to shareholders on liquidation

Under Russian law, the liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law allows a company to be liquidated by a three-quarters majority vote of a General Shareholders' Meeting or by a court order. Following a decision to liquidate the company, the right to manage the company's affairs would pass to the liquidation commission, which is appointed by the company's General Shareholders' Meeting. Creditors may file claims within a period to be determined by the liquidation commission, but which may not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- first priority: individuals owed compensation for injuries or deaths or moral damages;
- second priority: claims of employees and copyright claims;
- third priority: federal and local governmental authorities claiming taxes and similar payments for their budgets and non-budgetary funds; and
- fourth priority: other creditors in accordance with Russian legislation.

Claims of creditors in respect of obligations secured by a pledge of the company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors ranking first and second in the order of priority, where the claims of such creditors arose before the relevant pledge had been granted. Any residual claims of secured creditors that remain unsatisfied after the sale of the pledged property rank pari passu with claims of creditors ranking fourth in order of priority. The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders which had requested the repurchase of their shares in accordance with the Joint Stock Companies Law;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a pro rata basis.

The Federal Law "On Insolvency (Bankruptcy)" of 26 October 2002, as amended (the "**Bankruptcy Law**") provides for a different order of priority of creditors' claims in the event of insolvent liquidation:

- claims of individuals owed compensation for injuries, deaths or moral damages;
- claims of employees and copyright claims; and
- claims of other creditors.

Claims of creditors in respect of obligations secured by a pledge of the company's property are satisfied in the same way as specified above. In addition, the Bankruptcy Law provides for certain payments to be settled from the bankrupt estate in a different order of priority from that order set out above. These payments include various expenses incurred in the course of insolvency proceedings, creditors' claims which arose after the acceptance by the arbitration court of the petition for the debtor to be declared bankrupt and before the debtor was declared bankrupt, and creditors' claims in respect of monetary obligations which arose during the receivership.

Liability of shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another entity. The person or entity capable of determining such decisions is deemed an "effective parent." The entity whose decisions are capable of being so determined is deemed an "effective subsidiary." The effective parent bears joint and several liability for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the effective parent and the effective subsidiary; and
- the effective parent gives binding instructions to the effective subsidiary.

Accordingly, a holder of our shares will not be personally liable for our debts or those of our effective subsidiaries unless that holder controls our business. In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the willful action or omission of an effective parent. This liability arises whether the effective parent's ability to determine decisions of the effective subsidiary arose through ownership of voting securities, contract or otherwise. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take any action or fail to take any action in circumstances where such effective parent knew that such action or failure to take action would result in the effective subsidiary's losses.

Share capital increase

We may increase our share capital by issuing new shares, or increasing the par value of outstanding shares. According to the Joint Stock Companies Law and the Charter, a decision to increase the share capital by increasing the par value of issued shares requires a majority vote of a General Shareholders' Meeting, which decision can be taken only upon the proposal of the Board of Directors. A decision on issuance of shares or securities convertible into shares via a closed subscription, or an issuance via an open subscription of ordinary shares or securities convertible into ordinary shares constituting more than 25% of the number of outstanding ordinary shares, requires a three-quarters majority vote by a General Shareholders' Meeting, which decision can be taken only upon the proposal of the Board of Directors. In all other circumstances, as provided in the Charter, a decision to increase the share capital by issuance of additional shares requires a unanimous vote of the Board of Directors. In addition, the issuance of shares above the number of authorised shares provided in the Charter requires an amendment to the Charter, which requires a three-quarters majority vote of a General Shareholders' Meeting.

The Joint Stock Companies Law requires the placement price of newly issued shares offered through subscription to be determined by the Board of Directors on the basis of their market value. The placement price for existing shareholders exercising a pre-emptive right to purchase additional shares may not be lower than 90% of the price paid by third parties. Fees of an intermediary participating in the placement of shares through subscription cannot exceed 10% of the share placement price. The Board of Directors may, but is not required to, except when expressly provided for by Russian legislation, decide to involve an independent appraiser to set the placement price of the shares. If a company's shares are traded on stock exchanges or when a price for a company's shares is publicly available, the board of directors must take into account such publicly available prices. In relation to any in-kind contributions for new shares, the board of directors must value those contributions based on market value, and, in order to determine such market value, an independent appraiser must be retained. In such circumstances, the value set by the board of directors may not in any event exceed the value determined by the independent appraiser.

The Federal Law on Securities Market, dated 22 April 1996, as amended (the "Law on Securities Market") and the FSFM regulations set out detailed procedures for the issuance and registration of additional shares of a joint stock company. These procedures require:

- adoption of a decision on increase of share capital by placement of additional shares;
- adoption of a decision on share issuance;
- prior registration of a share issuance with FSFM;
- placement of the shares;
- registration of the report or filing of the notification on the results of the share issuance; and
- public disclosure of information at the relevant stages of the issuance.

Capital decrease; share buy-backs

We have the right, and under certain circumstances, are statutorily required, to decrease our share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the minimum share capital required by law, which is RR 100,000 for an open joint stock company. We may decrease our share capital through a reduction of the number of our shares, including by repurchase and cancellation, or through a reduction in the par value of the shares. Pursuant to the Joint Stock Companies Law, a decision on a decrease of share capital through a reduction in the par value of the shares requires a three-quarters majority vote of a General Shareholders' Meeting upon a proposal by the Board of Directors; in all other cases, a decision on a decrease of share capital may be taken by a majority of votes of shareholders. Additionally, within 30 days of a decision to reduce our share capital, we must publish this decision and issue written notice of such decision to its creditors. Our creditors would then have the right to demand, within 30 days of publication or receipt of that notice, an accelerated performance or termination of all our obligations owed to them, as well as compensation for damages, if any.

The Joint Stock Companies Law allows a joint stock company to decrease its share capital only if the following conditions have been met:

- the company's share capital has been paid in full;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase of their shares;
- the company is not insolvent on the date of adoption of the decision to decrease the share capital and would not become insolvent as a result of the proposed decrease of share capital;
- the value of the company's net assets on the date of adoption of the decision to decrease the share capital is not less (and would not become less as a result of the proposed decrease of share capital) than the sum of its share capital, the reserve fund and the excess of the liquidation value over the par value of the company's issued and outstanding preferred shares;
- declared dividends have been paid in full; and
- other specified requirements of Russian legislation.

The Joint Stock Companies Law and the Charter allow our shareholders to authorise the repurchase, for the purpose of a decrease of share capital, of up to 10% of our shares in exchange for cash, property or property rights. The Joint Stock Companies Law allows a joint stock company to repurchase its shares only if at the time of repurchase:

- the company's share capital has been paid in full;
- the company is not, and would not become as a result of the repurchase, insolvent;
- the value of the company's net assets is not less (and would not become less as a result of the proposed repurchase) than the amount of its share capital, the reserve fund and the excess of the liquidation value over the par value of the company's issued and outstanding preferred shares; and
- the company has repurchased all shares from shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian law provides that a joint stock company's shareholders may demand the repurchase by the company of all or some of their shares if the shareholder demanding such repurchase voted against, or did not participate in the voting on, the decision approving any of the following actions:

- the reorganisation of the company;
- the conclusion of a major transaction involving assets in excess of 50% of the balance sheet value of the assets of the company; or
- the amendment of the charter or approval of a new version of the charter in a manner that limits shareholders' rights.

Pursuant to the Joint Stock Companies Law, a shareholder demanding repurchase of its shares is not entitled to dispose of, or encumber, its shares from the moment of receipt by the company of the relevant shareholder's demand until the earlier of registration with the shareholders' register of such transfer of shares to the company or revocation by that shareholder of its demand. The board of directors must approve the report on the results of repurchase of the shares within 50 days of the relevant decision of the General Shareholders' Meeting, on the basis of which the relevant changes must be reflected in the shareholders' register. A company may not repurchase shares in such circumstances in an amount which exceeds 10% of the company's net assets calculated according to RAS as of the date of the General Shareholders' Meeting which approved one of the decisions described above. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of the company's net assets, the company will repurchase shares from each such shareholder on a pro rata basis.

Registration and transfer of shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. In relation to a joint stock company with more than 50 shareholders, the register of shareholders must be maintained by a specialised registrar. Ownership of a joint stock company's registered ordinary shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. Our shareholder register is maintained by the Registrar, whose registered office is located at 4 bld. 6, Kozhevnicheskiy pr., Moscow, Russian Federation.

A shareholder may conclude an agreement with a licensed depositary, under which a depositary will be responsible for keeping records of transfers of rights over the deposited shares. Under Russian legislation, the conclusion of a depositary agreement does not entail transfer of the right of ownership over the deposited shares to a depositary, and a depositary may not carry out any operations with the deposited shares except under instruction of the shareholder. When shares are deposited with a depositary, they are registered on a special "depo" account, and a depositary is registered in the shareholders register as a nominee shareholder.

A purchase, sale or other transfer of shares is effected through registration in the shareholder register (or the registration with a depositary if shares are held by such depositary). The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to effect such registration.

Reserve and Other Funds

Russian legislation requires each joint stock company to establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in the event that other funds are not available. According to the Charter, our reserve fund is established in an amount equal to 5% of our share capital, and we are required to make annual allocations to our reserve fund in an amount of 5% of our net profits until the required amount of the reserve fund is reached.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information us, our shareholders, the structure of our management bodies, the members of the Board of Directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter, and other information about our financial and business activity;
- filing with the FSFM and publishing in the FSFM's periodical publication, as well as in other media, information concerning material facts and changes in our financial condition or business activities, including among other things:
  - any reorganisation;
  - certain changes in the composition of our assets;
  - certain facts related to share issuances;
  - decisions of the General Shareholders' Meetings;

  - inclusion in our shareholders register of a shareholder that has acquired 5% or more of our outstanding ordinary shares and any circumstance which resulted in the number of our outstanding ordinary shares held by such shareholder moving above or below a 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold; and
  - information on any of the following documents received by us: a voluntary offer (including any competing offer); a mandatory offer (including any competing offer); a notice of the right of shareholders to sell their shares to a person that has acquired more than 95% of the ordinary shares; or a request that minority shareholders sell their shares to a person that has acquired more than 95% of the ordinary shares;
- disclosing information on various stages of shares issuance through publication of certain data as required by applicable securities regulations;
- disclosing our annual report and annual financial statements prepared in accordance with RAS;
- filing with the FSFM on a quarterly basis a list of our affiliated persons and disclosing the same on our website, on the same basis;
- disclosing our Charter and internal regulations;
- disclosing on our website, filing with the FSFM and disclosing through other public news media information which may have a significant impact on the price of our securities; and
- other information as required by applicable Russian securities legislation.

Corporate Governance

We comply with a number of corporate governance requirements. Such requirements include, among others, the:

- retention of at least one independent director on the board of directors at all times;
- adoption of a regulation on insider trading;
- adoption of a provision in the Charter and internal regulations requiring our chief executive officer, members of the Board of Directors and our officers to disclose information concerning their ownership, sale and purchase of our outstanding securities.

General Shareholders' Meeting

Procedure

The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in the Charter. A shareholders' meeting may not decide issues that do not fall within its competence established by the Joint Stock Companies Law and by the Charter in accordance with the Joint Stock Companies Law. According to the Charter, the General Shareholders' Meeting has the exclusive power to take decisions on the following issues, among others:

- amendments to the Charter or approval of a new version thereof;
- our reorganisation;
- our liquidation, appointment of a liquidation commission and approval of interim and final liquidation balance sheets;
- election and early termination of the Board of Directors;
- determination of the quantity, par value and categories (types) of authorised shares and the rights attaching to these shares;
- decrease of our share capital by way of reducing the par value of shares, by way of acquisition of shares by us to reduce the total number of our shares, and by way of cancelling shares that were acquired or repurchased by us;
- increase of our share capital by way of increasing the par value of shares and by placement of additional shares in the events provided by the Charter;
- election of the members of our internal audit commission and early termination of their powers;

- election of members of our counting commission and early termination of their powers;
- approval of our external auditor;
- payment (declaring) dividends based on first quarter, half-year, and nine-months results of the financial year;
- approval of our annual reports and annual financial statements, including our profit and loss reports (profit and loss statements), and distribution of profits, including payment (declaration) of dividends, and losses based on the results of the financial year;
- setting the procedure for conducting General Shareholders' Meetings;
- splitting and consolidation of shares;
- approval of interested party transactions as established by the Joint Stock Companies Law and our Charter;
- approval of major transactions in cases as established by the Joint Stock Companies Law and our Charter;
- our acquisition of placed shares as established by the Joint Stock Companies Law and our Charter;
- decisions on transferring the powers of the President to the managing organisation or the sole manager under a relevant agreement and approval of the terms thereof;
- decisions on participation in financial and industrial groups, associations and other business associations;
- adoption of our by-laws (internal regulations) governing the activities of our governance bodies; and
- decisions on other matters in cases provided for in the Joint Stock Companies Law.

Under the Joint Stock Companies Law, certain shareholders' resolutions may provide that they remain valid for a specific period of time with respect to a company's reorganisation or spin-off, an increase or decrease of share capital or a splitting or consolidation of shares (the "**Validity Period**"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

Voting at a shareholders' meeting is generally based on the principle of one vote per one ordinary share, with the exception of the election of the Board of Directors, which is done through cumulative voting. See "— Board of Directors." Decisions are generally passed by a majority vote of the holders of voting stock present at a General Shareholders' Meeting. However, Russian law requires a three-quarters majority vote of the holders of voting stock present at a General Shareholders' Meeting to approve the following:

- amendments to the company's charter or approval of a new version thereof;
- reorganisation;
- liquidation, appointment of a liquidation commission and approval of interim and final liquidation balance sheets;
- major transactions involving assets in excess of 50% of the balance sheet value of our assets;
- determination of the number, par value and type of authorised shares and the rights granted by such shares;
- repurchase by us of issued shares in cases stipulated by the Joint Stock Companies Law;
- any issuance of shares or securities convertible into ordinary shares by closed subscription;
- the issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting more than 25% of the number of our issued and outstanding ordinary shares; and
- decrease of the share capital by reducing the par value of the shares.

The quorum requirement for our General Shareholders' Meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another General Shareholders' Meeting with the same agenda may (or, in the case of an General Shareholders' Meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual General Shareholders' Meeting must be convened by the Board of Directors not earlier than two months and not later than six months after the end of the financial year, and the agenda must include the following items:

- election of members of the Board of Directors;
- election of the members of the internal audit commission;
- approval of the annual report and annual financial statements;
- approval of the distribution of losses and profits, including approval of annual dividends, if any; and
- approval of our external auditor.

Extraordinary General Shareholders' Meetings may be called by the Board of Directors on its own initiative, or at the request of the audit commission, external auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A General Shareholders' Meeting may be held in a form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the General Shareholders' Meeting through the attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of shareholders' opinions on the agenda issues by means of a written poll. The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of the members of the board of directors;
- election of the members of the internal audit commission;
- approval of our external auditor; and
- approval of the annual report and annual financial statements, and any distributions of losses and profits, including approval of annual dividends, if any, except for dividends based on first quarter, six-month and nine-month results of the financial year.

Notice and participation

Under the Joint Stock Companies Law, all shareholders entitled to participate in a General Shareholders' Meeting must be notified of the meeting, whether the meeting is to be held in direct form or by absentee ballot, not less than 30 days prior to the date of the meeting, and such notification must specify the agenda for the meeting. However, in relation to an extraordinary General Shareholders' Meeting to elect the board of directors or a General Shareholders' Meeting to approve any reorganisation in the form of merger, spin-off or demerger and to elect the board of directors of the company established as a result of such reorganisation, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda may be voted upon at a General Shareholders' Meeting.

The list of persons entitled to participate in a General Shareholders' Meeting is compiled on the basis of data in the company's shareholders register on the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a General Shareholders' Meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary General Shareholders' Meeting to elect the board of directors, not more than 65 days before the date of the meeting). In the event of a General Shareholders' Meeting where ballot papers are circulated prior to the General Shareholders' Meeting, the date for compiling the list of shareholders entitled to participate in the General Shareholders' Meeting shall be set not less than 35 days prior to the General Shareholders' Meeting.

The right to participate in a General Shareholders' Meeting may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorised representative to participate in the discussion of agenda items and to vote thereon;
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to an authorised representative.

Currently, all our shares are owned by one shareholder that makes all the decisions that fall within the competence of the General Shareholders' Meeting alone and executes those decisions in writing. The requirements with respect to procedures and periods for preparation, convening and conduct of General Shareholders' Meeting are not currently applicable to us, with the exception of those prescribing the period for holding an annual General Shareholders' Meeting.

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law and the Charter as being the exclusive responsibility of the General Shareholders' Meeting. The Joint Stock Companies Law provides that a joint stock company's entire board of directors must be elected at each annual General Shareholders' Meeting and that the board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to the company's board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a General Shareholders' Meeting. If the company's shareholders sought to dismiss one of the company's directors, shareholders would be required to dismiss the entire board of directors and then re-appoint at a General Shareholders' Meeting those directors whom they wished to retain.

The Joint Stock Companies Law requires all joint stock companies with 50 or more shareholders to maintain a board of directors with at least five members. In relation to larger companies, the Joint Stock Companies Law requires a joint stock company with more than 1,000 holders of voting shares to maintain a board of directors with not less than seven members and a joint stock company with more than 10,000 holders of voting shares to maintain a board of directors with not less than nine members. Only individuals (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by a company's charter or by a decision of the General Shareholders' Meeting. The Charter provides that the Board of Directors shall consist of seven members. See "Management and Corporate Governance — Board of Directors."

Pursuant to the Joint Stock Companies Law and the Charter, the Board of Directors has the power to decide, among other things, the following issues:

- determination of our business priorities;
- convening of annual and extraordinary General Shareholders' Meetings, except for certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of the General Shareholders' Meeting and determination of the record date for shareholders entitled to participate in a General Shareholders' Meeting;
- increase of our share capital by way of placement of additional shares within the limits of amounts and types of authorised shares;
- placement of our bonds and other securities as provided for by the Charter;
- election of our president (chairman of the Management Board) and Vice-Presidents (members of the Management Board), early termination of their powers;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by legislation;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Charter;

- recommendations in respect of the amount of remuneration and compensation to be paid to the members of the internal audit commission and determination of the amount of our external auditor's fees;
- recommendations in respect of the amount of dividends on the shares and procedure of payment thereof;
- use of our reserve fund and other funds;
- approval of our internal documents, except for those documents, approval of which falls within the competence of the General Shareholders' Meeting or our executive bodies;
- creation of branches and representative offices;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- approval of our share registrar and the terms of the agreement with it; and
- other issues, as provided for by the Joint Stock Companies Law and the Charter.

Matters which are within the competence of the Board of Directors may not be transferred for consideration to our CEO. The Joint Stock Companies Law generally requires a majority vote of the directors present for an action to pass, with the exception of actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. See "Description of Share Capital and Certain Requirements of Russian Legislation." In the absence of the requisite number of directors for actions requiring a unanimous vote or majority vote of disinterested and independent directors, some of these actions may be submitted to a General Shareholders' Meeting for approval. A board meeting is considered duly assembled and legally competent to act when a majority of the number of directors provided for in the company's Charter are present.

Executive Bodies

Our executive bodies manage our day-to-day operations and comprise the Management Board and the President, who also acts as the chairman of the Management Board. The Management Board and President are accountable to the Board of Directors.

Management board

The management Board is our collective executive body. The activities of the Management Board are governed by the Joint Stock Companies Law, the Charter and internal regulations approved in accordance therewith. The Charter provides that the management board consists of four members (the chairman and three Vice-Presidents) that are elected by the Board of Directors. Under the Joint Stock Companies Law, no more than 25% of members of the Board of Directors are allowed to be members of the Management Board. The duties of the Management Board include, among other things:

- day-to-day management of our activities within the limits of issues assigned to it by the President;
- making decisions on the issues of our financial and economic activities;
- approval of our organisational structure;
- organisation of our accounting and reporting;
- implementation of our personnel policy; and
- other issues provided for in the Charter.

Decisions of the Management Board require a majority vote of members who are present, provided that a majority of elected members are present at the meeting. If the number of the members of the Management Board does not constitute the required quorum, the Board of Directors is obliged to elect a new Management Board.

President

Our President is our CEO and the chairman of our Management Board and is in charge of our day-to-day activities. The powers of the President are governed by the Joint Stock Companies Law, the Charter and internal regulations approved in accordance therewith. The President exercises executive authority over all activities of the company, except for issues assigned to the exclusive competence of the General Shareholders' Meeting and the Board of Directors. Under the Charter, the Board of Directors elects the President and may at any time resolve to terminate the President's powers. The President acts on our behalf without any power of attorney, signs agreements, opens our accounts with banks, arranges for our accounting and reporting, approves certain internal regulatory acts and carries out other functions in the course of our day-to-day activities.

Internal Audit Commission

The internal audit commission, whose activities are governed by the Joint Stock Companies Law, the Charter and internal regulations approved thereunder, oversees and coordinates audits of our financial and economic activity. The principal duties of the internal audit commission are to ensure that our activities comply with applicable legislation and do not infringe shareholders' rights, and that our accounting and reporting do not contain any material misstatements. The general shareholders meeting elects members of the internal audit commission for a term that expires at the date of the next annual General Shareholders' Meeting. Pursuant to the Joint Stock Companies Law, members of our management bodies may not be appointed to the internal audit commission. Our internal audit commission currently consists of 3 members:

Name	Year of Birth	Position
Vladimir Borisov	1973	Director, Internal Audit Department
Rinat Markov	1974	Director, Treasury
Tatyana Zorina	1975	Director, Corporate Reporting Department

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of the company. "Interested party transactions" as defined by the Joint Stock Companies Law, include transactions involving a member of the board of directors or a member of any executive body of the company (including the company's CEO, any member of the company's collective executive body and/or the company's sole manager and managing organisation), any shareholder that owns, together with any affiliates, at least 20% of the company's issued voting shares or any person who gives binding instructions to the company, if that person, or that person's spouse, parents, children, adoptive parents or children, siblings or affiliates, is/are:

- a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner, individually or collectively, of at least 20% of the voting shares of a legal entity that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- a member of any management body of a company, or a member of any management body of the managing organisation of the company, that is a party to, or a beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- in other cases provided by the charter of the company.

The Joint Stock Companies Law requires that an "interested party transaction" by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. An "independent director" is a person who is not, and within the year preceding the decision was not, (i) the sole executive of an executive body (including being a manager), (ii) a member of a collective executive body or of management bodies of the managing company, (iii) an affiliate of the company, except for the member of the board of directors of the company, or (iv) a person whose spouse, parents, children, adoptive parents or children, siblings held positions in the above mentioned executive bodies of the company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum. Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of inter-related transactions is 2% or more of the balance sheet value of the company's assets determined under RAS;

- the transaction or a number of inter-related transactions involves placement through subscription or secondary market sale of shares in an amount exceeding 2% of the aggregate of the company's issued ordinary shares and ordinary shares into which issued convertible securities may be converted;
- the transaction or a number of inter-related transactions involves placement through subscription of issued securities convertible into shares that may be converted into ordinary shares constituting more than 2% of the aggregate of the company's issued ordinary shares and ordinary shares into which issued convertible securities may be converted;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum for approval of a transaction by the board of directors (in case of a company with with 1,000 or fewer shareholders); or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director (in case of a company with more than 1,000 shareholders).

Approval by a majority of shareholders who are not interested in the transaction may not be required for an interested party transaction if such transaction is substantially similar to transactions entered into by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption shall apply only to the interested party transactions entered into within the period beginning when such party is recognised as an interested party until the next annual General Shareholders' Meeting.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the sole executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase the company's newly issued shares or securities convertible into shares;
- the company is repurchasing its issued shares;
- the company is merging with or into another company; or
- the company is obliged by the federal legislation and/or other normative acts of the Russian Federation to enter into the transaction, and settlements under such transactions are made pursuant to fixed tariffs and prices established by appropriate state authorities.

Any interested party transaction must be approved prior to its execution. Upon a claim by a company or any of its shareholders, a court may invalidate any interested party transaction entered into in breach of the requirements established by the Joint Stock Companies Law.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of transactions, involving the acquisition or disposal, or a possibility of disposal, of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under RAS, with the exception of transactions completed in the ordinary course of business or transactions involving placement through subscription or secondary market sale of ordinary shares or placement of securities convertible into ordinary shares. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company as determined according to its financial statements for the latest reporting date require unanimous approval by all members of the board of directors or, in the event such approval is not obtained by the board, a simple majority vote of a general shareholders' meeting in the event that the board of directors decides to transfer this issue to the General Shareholders' Meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of a company as determined according to its financial statements for the latest reporting date require a three-quarters majority vote of shareholders attending the meeting. Any major transaction entered into in breach of the requirements established by the Joint Stock Companies Law may be invalidated by a court pursuant to a claim made by a company or any of its shareholders.

Antimonopoly Clearance

Certain acquisitions of the voting shares of a joint stock company are subject to pre-approval or post-transactional notification of the antimonopoly authorities. See “Regulatory Matters — Antimonopoly Regulation.”

Currency Control

Pursuant to the Currency Law, ordinary shares of Russian companies may be settled:

- in Roubles or in foreign currencies, if the transaction is entered into between non-residents or between a resident and a non-resident; and
- in Roubles only, if the transaction is entered into between residents.

Russian companies may pay dividends:

- in Roubles or foreign currencies (confirmed by the CBR in its Information Letter No. 31, dated 31 March 2005), if paid to non-residents. Dividends paid in Roubles may be freely converted through Russian authorised banks and remitted outside of Russia; and
- in Roubles only, if paid to residents.

Admission to Trading on a Russian Stock Exchange

The admission of shares to trading on a Russian stock exchange enables the shares to be settled through the facilities of such stock exchange and may take the form of admission with and without listing. The shares admitted to trading without listing enjoy the benefits of trading on a stock exchange except for the following options which are available to listed shares only:

- some market participants may only invest into listed stock (*e.g.,* Pension Fund of the Russian Federation and insurance companies);
- shares traded over-the-counter are not eligible for placement and circulation abroad in the form of depositary receipts; and
- placement notice procedures may only be used in relation to listed stock whereas non-listed stock is subject to placement report procedures. The key differences between the placement notice procedures and the placement report procedures, respectively, are as follows: (i) the placement notice is filed with the FSFM (the placement report is registered therewith), (ii) exercise of pre-emptive rights period is 20 days (45 days in case of a placement report), and (iii) pre-emptive rights pricing takes places in the end of 20 days period (in the beginning of 45 days period in case of a placement report).

The shares may be admitted to trading if the issuer complies with Russian securities legislation, including disclosure requirements, and the following documents were registered with the FSFM with respect to such shares:

- the Russian prospectus; and
- the placement report (which requirement effectively provides that only secondary shares may be admitted to trading).

Listing of shares is subject to a number of additional requirements which also depend on the type of listing obtained.

Notification of Foreign Ownership

Pursuant to Part I of the Tax Code of the Russian Federation of 31 July 1998, as amended (the “**Tax Code**”), foreign persons registered as individual entrepreneurs in Russia and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign companies that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to foreign ownership of our shares.

Notification of Acquisition of Certain Thresholds

Pursuant to Russian securities legislation, each holder of ordinary shares of a joint stock company must notify a company and the FSFM of the acquisition of 5% or more of such ordinary shares and any subsequent change in the number of the ordinary shares above or below a threshold of 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75%. Each notification must contain the name of the shareholder, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired. As a general rule, such notifications must be given within five days after the ordinary shares have been transferred to such shareholder's securities account or, if such change was the result of placement of additional ordinary shares, within five days of the day such shareholder learned, or should have learned, about state registration of the report on placement of shares.

REGULATORY MATTERS

Set out below is a summary of material information concerning regulation of our business. This description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations of the Russian Federation.

Regulation of Restaurant Business

The restaurant industry in Russia is regulated by general legislation and specialised legislation that includes quality standards, safety and sanitary rules and consumer protection. A number of permits and consents, including those related to health and safety and fire protection, are required in order to open a new restaurant. Application procedures for these permits and consents are often time consuming and inconsistent.

State and local bodies involved

In addition to the state bodies and their subdivisions having authority over general matters such as taxation, there are a number of state bodies regulating and supervising the restaurant industry. The key bodies are:

- The Federal Service for Supervision in the Area of Protection of Consumer Rights and Human Welfare (the "**Federal Consumer Service**"), which is the principal federal body authorised to supervise and control observance of sanitary and epidemiological legislation and consumer rights protection.
- The Ministry of Health Protection and Social Development, which, among other things, supervises the Federal Consumer Service.
- The Ministry of Civil Defence Affairs, Emergencies and Liquidation of Consequences of Natural Disasters (the "**Emergency Ministry**"), which, among other things, supervises fire inspection authorities in charge of fire safety regulations.
- Local authorities, which control compliance by the companies with various local rules, including those relating to waste management.
- State courts, which resolve civil and administrative disputes, such as invalidating terms and conditions in consumer contracts that violate consumer rights, as well as imposing criminal sanctions for criminal offences in the restaurant industry, such as manufacturing and serving food not in compliance with standards.

Applicable legislation

The key pieces of Russian legislation regulating the restaurant market are set out below.

- Federal Law No. 2300-1 "On Protection of Consumers' Rights" dated 7 February 1992, as amended (the "**Law on Protection**"), establishes a general legal framework for regulation of the relationship between retailers (including restaurants), manufacturers and service providers, on the one hand, and consumers, on the other hand, in the course of the sale of goods, performance of works or rendering of services. It establishes the rights of customers to purchase goods of proper quality and to receive information on goods and the manufacturers of those goods. The Law on Protection provides for liability of retailers, manufacturers and service providers if they violate the rights provided under the Law on Protection. The Law on Protection also invalidates any term in a consumer contract purporting to limit consumer rights under the Law on Protection. Violation of the Law on Protection may result in civil and administrative sanctions for non-complying companies and/or their officers and criminal sanctions for non-complying officers.
- Federal Law No. 29-FZ "On Quality and Safety of Food Products" dated 2 January 2000, as amended (the "**Law on Quality and Safety**"), establishes a general framework for ensuring the quality of food products and their safety for the human health. It sets out general requirements for the packaging, storage, transportation, sale of food products, as well as for the destruction of poor-quality and unsafe food products. Violation of the Law on Quality and Safety may result in civil and administrative sanctions for non-complying companies and/or their officers and criminal sanctions for non-complying officers.

- Federal Law No. 52-FZ "On Sanitary and Epidemiological Welfare of the Population" dated 30 March 1999, as amended (the "**Law on Sanitary and Epidemiological Welfare**"), requires food products to meet certain sanitary rules and requirements. Food products that do not conform to the established sanitary rules and requirements and represent a danger to consumers must be withdrawn immediately from production and sale. The Law on Sanitary and Epidemiological Welfare also establishes the framework for supervision by the authorised state bodies over compliance by legal entities with sanitary and epidemiological regulations. Violation of the Law on Sanitary and Epidemiological Welfare may result in civil and administrative sanctions for non-complying companies and/or their officers and criminal sanctions for non-complying officers.

- Federal Law No. 184-FZ "On Technical Regulation" dated 27 December 2002, as amended (the "**Law on Technical Regulation**"), establishes the legal framework for enactment on the federal level of state standards related to use, storage, transportation, sale and utilisation of goods and services, and compliance with such standards, including certification procedures. Violation of the Law on Technical Regulation may result in civil and administrative sanctions for non-complying companies and/or their officers and criminal sanctions for non-complying officers.

- Federal Law No. 171-FZ "On State Regulation of Production of, and Operations with, Ethanol, Alcohol and Alcoholic Products" dated 22 November 1995, as amended (the "**Law on Alcohol Products**"), establishes a general legal framework and requirements for production of, and operations with (including storage and sale), ethanol, alcohol and alcoholic products in Russia. The Law on Alcohol Products provides for the requirement to obtain licences for activities in connection with production of, and operations with, ethanol, alcohol and alcoholic products, including a licence for retail sale of alcohol beverages. Violation of the Law on Alcoholic Products may result in administrative sanctions for non-complying companies and/or their officers and criminal sanctions for non-complying officers.

- Federal Law No. 69-FZ "On Fire Safety" dated 21 December 1994, as amended (the "**Law on Fire Safety**"), establishes a general legal framework of measures to secure fire safety in Russia. The Law on Fire Safety establishes obligations of legal entities in the sphere of securing fire safety and provides for the general powers of state authority to perform audits and check compliance by organisations with fire safety regulations.

- Federal Law No. 89-FZ "On Production and Consumption Wastes" dated 24 June 1998, as amended, (the "**Law on Wastes**") sets general rules for handling waste resulting from the activity of legal entities and other organisations. According to the Law on Wastes, regulation of handling of consumption waste and litter falls within the competence of local authorities. Violation of the Law on Wastes may result in administrative sanctions for the officers of non-complying companies.

Licensing

Generally, restaurant operations are not subject to licensing in Russia. However, applicable legislation requires licences for the retail sale of alcoholic beverages, which are issued by regional and local authorities. We maintain licences for the retail sale of alcoholic beverages, and all of our restaurants that serve alcoholic beverages have such licences.

Regulation of Intellectual Property

State bodies involved

The Federal Intellectual Property, Patents and Trademarks Service (the "**Federal IP Service**") is the federal body which is authorised to register intellectual property rights, including trademarks, and to register agreements for the transfer of intellectual property rights, such as licensing agreements for the use of a trademark or agreements for the transfer of the right to a trademark, as well as franchising agreements providing for the right to use intellectual property.

The Federal Tax Service, in addition to its general authority over the matters of taxation, is entitled to register franchising agreements.

Applicable legislation

The main law in the sphere of intellectual property applicable to the Company in connection with the rights to the trademarks is Federal Law No. 3520-I "On Trademarks, Service Marks and Appellations of Origin" dated 23 September 1992, as amended (the "**Law on Trademarks**"), that governs all issues relating to registration, transfer and use of trademarks. On 24 November 2006, the State Duma adopted Part 4 of the Civil Code, which will regulate intellectual property as from 1 January 2008 and replace the Law on Trademarks. The regulatory regime for trademarks under Part 4 of the Civil Code remains essentially the same as the one established by the Law on Trademarks.

The Civil Code is the primary legislative act that governs the issues of franchising in Russia.

Regulation of trademarks

According to the Law on Trademarks, protection of rights to a trademark in Russia is subject to state registration with the Federal IP Service. Upon registration of a trademark the Federal IP Service issues a certificate of registration of the trademark, which is valid for 10 years from the date when an application for registration was filed with the Federal IP Service. This term may be extended, each time for another 10 years, upon application of the owner of the trademark filed with the Federal IP Service during the last year of the validity of the certificate. The certificate of registration of a trademark is issued with respect to certain types of goods or services, which means that the trademark is not protected if it is used for other types of goods or services that are not covered by the certificate of registration.

A trademark may not be registered if this trademark is registered with respect to the same goods or services in the name of another entity, if the application for registration of the trademark with respect to the same goods or services was filed by another entity earlier or if the trademark is otherwise protected in accordance with an international treaty to which Russia is a party. Trademarks that are recognised as well-known trademarks in Russia may not be registered as well.

A registered owner of a trademark may assign its right to the trademark or grant a temporary right to use a trademark to another entity under an agreement. Agreements for the assignment of a trademark and licensing agreements granting a temporary right to use a trademark are subject to registration with the Federal IP Service and are invalid if such registration is not obtained.

Regulation of franchising

Under the Civil Code, a franchising agreement must be registered with the Federal Tax Service. Such registration must be conducted in the tax inspectorate office in which the state registration of the franchisor was performed. In the event the franchisor is established outside Russia, a franchising agreement governed by Russian law must be registered in the tax inspectorate office in which the state registration of the franchisee was performed. If a franchising agreement is not registered with the respective tax authorities, the parties to such franchising agreement may not refer to it in their relations with third parties; however, it remains binding on the parties. A franchising agreement that provides for the right of the franchisee to use certain intellectual property rights of the franchisor (such as patents) is subject to additional registration with the Federal IP Service. In the event this requirement is not met, the agreement is considered void. Any amendment and termination of a franchising agreement are also subject to registration with the respective tax and patent authorities.

The parties to a franchising agreement may agree to impose restrictions on their rights. The franchisor may undertake not to provide other persons with the same exclusive rights to be used on the same territory as those granted to a franchisee and may require that the franchisor does not conduct its own analogous activity on this territory. The franchisee, on the other hand, may undertake not to compete with the franchisor on certain territory or agree not to enter into other franchising agreements with the franchisor's competitors. However, such restrictive conditions in a franchising agreement may be found invalid upon a claim of the Federal Antimonopoly Service (the "**FAS**") or other interested parties if such limitations, taking into account the relevant market and economic position of the parties, violate Russian antimonopoly legislation. Additionally, the Civil Code expressly prohibits franchising agreements that allow the franchisor to determine the price of goods or price of work performed by a franchisee or to establish an upper or lower limit of these prices, or to define the category of the customers to which a franchisee must sell the goods or provide services. Such terms are considered void.

Under the Civil Code, a franchisor is secondarily liable for the claims made against the franchisee on the nonconformity of the quality of the goods sold by the franchisee or the services rendered by it under a franchising agreement. The franchisor is also jointly and severally liable for the claims made against the franchisee as the producer of the products of the franchisor.

A franchisee that duly performs its obligations under a franchising agreement has a statutory right to renew the franchising agreement on the same conditions after its expiration. If the franchisor refuses to renew a franchising agreement, such franchisor may not enter into similar agreements on the same territory with other parties during three years after such refusal without first offering to the franchisee a new franchising agreement on terms that are no less favourable to the franchisee than those of the terminated agreement. The franchisee is also entitled to receive compensation for all losses that such franchisee may incur.

The Civil Code provides that any franchising agreement that is concluded for an indefinite period of time may be terminated by any of the parties with a six-month prior notice to the other party, if a longer period is not provided by the franchising agreement.

Regulation of Real Estate

The key pieces of Russian legislation relating to land and other real estate are set out below. This description, however, is not complete and is qualified in its entirety by reference to applicable Russian legislation.

State bodies involved

In addition to the state bodies and their subdivisions having authority over general matters such as taxation, there are a number of state bodies regulating and supervising the real estate. The key state bodies are:

- The Federal Agency for Real Estate Register (the "**Real Estate Register Agency**"), which is responsible for, among other things, measurement and registration of (i) land plots and (ii) real estate under construction. In addition, the Real Estate Register Agency maintains a register of land plots.
- The Federal Agency for Construction, Housing and Utilities, which is authorised to review construction documentation, among other things.
- The Federal Registration Service, which maintains the state register of real estate and transactions in relation to that registered real estate.

Applicable legislation

Russian legislation regulating the ownership and leasehold rights to real estate and real estate construction includes, *inter alia*:

- Civil Code;
- Land Code dated 25 October 2001, as amended (the "**Land Code**");
- Town Planning Code dated 29 December 2004, as amended (the "**Town Planning Code**");
- Federal Law No. 122-FZ "On State Registration of Rights to Immovable Property and Transactions Therewith" dated 21 July 1997, as amended (the "**Law on State Registration**");
- Federal Law No. 101-FZ "On Operations with Agricultural Land" dated 24 July 2002, as amended;
- Federal Law No. 172-FZ "On Transfer of Land Plots from One Category to Another" dated 21 December 2004, as amended; and
- other federal and regional laws and regulations.

General provisions

Currently most of the land in Russia is owned by the Russian Federation, Russian regions or municipalities. The share of buildings and similar real estate that is privately-owned is greater than the share of privately-owned land because the regulatory regime with respect to such buildings and similar real estate is less restrictive.

Russian law provides for the creation of a unified register, or cadastre, in which the details of land plots, such as their measurements and boundaries, are recorded. As a general rule, only land plots with a state cadastre number may be subject to transactions. A separate register is created for registration of all real estate and transactions in relation to that registered real estate as described in more detail below.

All land is categorised as having a particular designated purpose, for example agricultural land, land for use by industrial enterprises, power companies and communication companies, land for military purposes, forestry land and reserved land (*i.e.*, land which is owned by the state but which can be transferred to any of the other categories). Land must be used in accordance with its categorised purpose. Under the Land Code, land plots owned by the state or the municipalities may be sold or leased to Russian and foreign persons or legal entities. However, certain land plots owned by the state may not be sold or leased to the private sector and are referred to as being "withdrawn from commerce" (for example, natural reserves and land used for military purposes are typically withdrawn from commerce). Other land plots may be restricted in that they may not be privately owned but may be leased to the private sector (for example, land is often reserved for a particular cultural heritage purpose if a residential building of the 19th or the beginning of the 20th century is built over such land plot).

Under Russian law, a land plot and a building constructed on such land plot may be owned by different persons, in which case the owner of building may request that the owner of the land sets a *servitus* which enables the owner of the building to access the same.

Regulation of real estate construction

Obtaining land plots for construction purposes

Russian law generally allows persons and legal entities to acquire land owned by state or municipal authorities for development and construction of buildings. Russian law requires state or local authorities to grant permissions for land plots to be used for construction purposes unless a land plot (i) has been withdrawn from commerce, (ii) is not permitted to be privatised under federal law, or (iii) has been reserved for state or municipal needs. Any refusal of state or local authorities to grant such permission for a land plot may be challenged by the applicant in Russian courts.

Under the Town Planning Code, land plots are assigned for construction in accordance with town construction plans approved by competent authorities.

If no assignment was made with respect to a particular state and municipal land plot, such land plot may be either acquired or leased by an applicant. If more than one applicant wishes to acquire or lease the land plot, then the decision is made through tender (auction), which is a public event.

If, however, the land plot was assigned before submission of an application, then it can only be subject to lease, perpetual use and temporary gratuitous use. In this case an application for preliminary approval of a land plot for construction specifies the land plot in question as well as the building's proposed purpose, location and size. The application may be accompanied with a feasibility study. The competent state or municipal authority then grants a preliminary approval for the use of the land plot for construction. On the basis of applications submitted by various developers, the relevant authority takes a final decision on the land plot's approval for construction.

Construction and "putting into operation" permits

Construction of a building on the land plot may only be carried out after obtaining a construction permit from the competent regulatory authorities. The issuance of a construction permit generally requires state appraisal of project documentation. In order to obtain an affirmative decision, the project must comply with various state standards, sanitary and epidemiological rules, environmental legislation, cultural heritage requirements as well as fire, nuclear and other types of security.

In addition, upon completion of construction, the competent authority issues a permit for putting the building into operation which confirms compliance of the new building with project documentation.

Regulation of real estate sale and lease

According to the Civil Code, agreements for the sale and lease of buildings must expressly set out the price of such sale and lease. This restriction limits the ability of real estate industry participants to use price determination formulas and adapt to volatile market situation.

The transfer of ownership under a building sale agreement is subject to state registration, whereas the sale agreement itself is not required to be registered. With respect to buildings, both lease rights and lease agreements are subject to registration, except for lease agreements for a term of less than one year.

State registration of real estate and transactions involving such registered real estate

All rights to real estate (including land plots and buildings) and transactions involving such real estate are required to be registered in the Unified State Register of Rights to Immovable Property and Transactions Therewith (the "**Register of Rights**") maintained by the Federal Registration Service. Under the Law on State Registration, registration with the Register of Rights is, *inter alia*, required for: (i) buildings, facilities, land plots and other real estate; (ii) transactions involving such registered real estate such as establishment of trust, sale, mortgage and lease for a term of not less than one year. Real estate and transactions involving such registered real estate are registered by the Federal Registration Service in the relevant Russian region where the property is located.

The rights to real estate only arise at the time of state registration. The failure to register a transaction which requires state registration generally results in the transaction being rendered null and void.

Liability of land plot owners and leaseholders

Owners and leaseholders of land plots and buildings are required to comply with federal, regional and municipal laws and regulations. The owner of a building will usually bear all liabilities that may arise in connection with the building. Owners and leaseholders are required, for example, to use the land plot (and, if required, the building) in accordance with its designated purpose and not to cause harm to the environment. Regional and municipal laws and regulations and agreements entered into with local and municipal authorities may provide for additional financial and other obligations such as financing of local engineering, transportation and social infrastructure.

Land and real estate taxation

Property tax

The taxpayers for property tax are (i) a Russian entity which owns, leases or otherwise uses movable and immovable property included in its balance sheet as fixed assets and (ii) a non-Russian entity that carries out business in Russia through a permanent establishment and/or owns real estate in Russia. Land and natural resources are specifically excluded.

The tax rate is established by regional authorities of the Russian Federation but may not exceed 2.2% of the average annual book value of the relevant property calculated under Russian accounting regulations. Currently, regional authorities of the most developed Russian regions have set the tax rate at the highest possible rate. This tax is payable on a quarterly basis.

Land tax

The taxpayers for land tax are individuals and entities who have ownership, the right of permanent use or a life estate (which can be disposed of by the life tenant in its will) in land.

The land tax rates are determined by the municipal authorities within the following limits specified in the Tax Code: (i) 0.3% of the register value for the agricultural and housing land; and (ii) 1.5% of the register value for other land, which includes land for use in the restaurants industry. For example, the current tax rate applicable to us in Moscow is 1.5%. This tax is also payable on a quarterly basis.

Antimonopoly Regulation

The Federal Law "On Protection of Competition" dated 26 July 2006 (the "**Competition Law**") provides for a mandatory pre-approval by the FAS of the following actions:

- an acquisition by a person (or its group) of more than 25% of the voting shares of a joint stock company (⅓ participation interest in a limited liability company) and the subsequent increase of these stakes to more than 50% and more than 75% of the voting shares (½ and ⅔ participation interest in a limited liability company); or acquisition by a person (or its group) of the core production assets and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20% of the total balance sheet value of the core production and intangible assets of such entity; or obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group), if the aggregate asset value of an acquirer (its group) together with a target (or its group) exceeds RR3 billion and at the same time the total asset value of the target (its group) exceeds RR150 million; or the total annual revenues of such acquirer (or its group) and the target (or its group) for the preceding calendar year exceed RR6 billion and at the same time the total asset value of the target (its group) exceeds RR150 million or an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the Register of Entities Having a Market Share in Excess of 35% on a Particular Commodity Market (the "**Monopoly Register**");

- mergers and consolidations of entities, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RR3 billion; or total annual revenues of such entities (groups of persons to which they belong) for the preceding calendar year exceed RR6 billion; or if one of these entities is included into the Monopoly Register; and
- foundation of an entity, if its share capital is paid by the shares (participation interest) and/or the assets of another entity and the newly founded entity acquires the rights in respect of such shares (participation interest) and/or assets as specified in item (i) above provided that the aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the share capital of the newly founded entity exceeds three billion Roubles; or total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interest) and/or assets are contributed to the share capital of the newly founded entity for the preceding calendar year exceed six billion Roubles; or if an entity whose shares (participation interest) and/or assets are contributed to the share capital of the newly founded entity is included in the Monopoly Register.

The stipulated requirements of a mandatory pre-approval by the Russian antimonopoly authorities shall not apply if the aforementioned transactions are performed by persons that are part of the same group. In this case, the anti-monopoly authority must be notified of their performance subsequently as prescribed by the Russian anti-monopoly legislation.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the antimonopoly authorities in connection with actions specified above if (i) the aggregate asset value or total annual revenues of an acquirer (its group) and a target (its group) for the preceding calendar year exceed RR200 million and at the same time the total asset value of the target (its group) exceeds RR30 million; or (ii) an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the Monopoly Register; or, in cases of mergers and consolidations (except for financial organisations), (iii) if their aggregate asset value or total annual revenues for the preceding calendar year exceed RR200 million.

Regulation of Employment and Labour

Employment and labour matters in Russia are regulated by the Labour Code dated 30 December 2001, as amended (the "**Labour Code**"), and other federal and regional laws and regulations.

Employment Contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into definite term employment contracts (for example, this applies to the contracts with top managers).

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence or health problems;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties;
- provision by the employee of false documents or misleading information prior to entry into the employment contract; and
- other grounds provided in the Labour Code or other federal laws.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or a disabled child under the age of 18 or other persons caring for a child under the age of 14 or disabled child under the age of 18 without a mother.

Any termination by an employer of an employment contract that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for claimed moral damage (which amount should be approved by the court).

Work Time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. The retirement age in the Russian Federation is 60 years for males and 55 years for females.

Wages

The minimum wage in Russia, as established by federal law, is RR1,100 as of the date of this Offering Memorandum. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

TAXATION

The following is a summary of certain Russian tax considerations relevant to payments to Non-Resident Holders (as defined below) and Russian Resident Holders (as defined below) of Shares and to the purchase, ownership and disposition of ordinary shares by their Non-Resident Holders and Russian Resident Holders. The summary is based on the laws of Russia in effect on the date of this Offering Memorandum. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. The summary also does not seek to address the availability of double tax treaty relief; and even where such relief is available there may be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Shares, and no representation with respect to the Russian tax consequences to any particular holder is made hereby.

Russian tax law and procedures are not well developed, and local tax inspectors have considerable autonomy in tax law administration and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law, and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets. For example, from 1 January 2006, a number of amendments were introduced to the Profits Tax Chapter of the Tax Code of the Russian Federation with respect to securities transactions. There is little practical experience with respect to the application of these changes, and there are only a few official clarifications. The interpretation and application of tax law provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a "**Non-Resident Holder**" means:

- an individual holder of Shares who does not satisfy the criteria for being a Russian tax resident, or a "Non-Resident Holder Individual." By reference this means an individual not actually present in the Russian Federation for an aggregate period of 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any period consisting of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education, or
- a legal person or organisation, in either case not organised under Russian law, that holds and disposes of the ordinary shares otherwise than through a permanent establishment in Russia, or a "Non-Resident Holder-Legal Entity."

For the purposes of this summary, a "**Russian Resident Holder**" means:

- an individual holder of shares who is actually present in Russia for an aggregate period of 183 days or more (excluding days of arrival into Russia, but including days of departure from Russia) in any period consisting of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education; or
- a legal person organised under Russian law who holds the ordinary shares; or
- a legal person or organisation, in either case organised under a foreign law, which holds and disposes of ordinary shares through its permanent establishment in Russia.

For the purposes of this summary, the definitions of "resident holder" and "non-resident holder" in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice however the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to other articles of the Tax Code of the Russian Federation dealing with taxation of individuals.

The residency rules may be affected by an applicable double tax treaty.

For the purposes of this summary, with respect to Holder-Legal Entities a "**Tax Agent**" means (i) a legal person organised under Russian law or (ii) a legal person or organisation organised under a foreign law and having a permanent establishment in the Russian Federation, which pays out dividend or capital gains income on the ordinary shares to Non-Resident Holder-Legal Entities.

For the purposes of this summary, with respect to Holder — Individuals receiving dividend income, a "**Tax Agent**" means (i) a legal person organised under Russian law or (ii) a legal person or organisation organised under a foreign law having a permanent establishment in the Russian Federation or, arguably, any other registered presence in the Russian Federation. With respect to Holder — Individuals receiving capital gains from the sale of Shares, a "**Tax Agent**" means a licensed broker or an asset manager that is a Russian legal entity or an organisation, or any other person, including a foreign company with a permanent establishment or arguably any registered presence in Russia or an individual entrepreneur located in Russia, who carry out operations under an agency agreement, a commission agreement or another similar agreement.

Taxation of Non-Resident Holders

Taxation of Dividends

Dividends paid to a Non-Resident Holder will generally be subject to Russian withholding income tax, which will be withheld by the Company acting as a Tax Agent. The applicable tax rate on dividends will depend on whether the dividend recipient is a legal entity or an individual. Dividends paid to a Non-Resident Holder-Legal Entity should generally be subject to Russian withholding income tax at a rate of 15%. Dividends paid to a Non-Resident Holder-Individual should be subject to withholding of Russian income tax at a rate of 30%. At the time of drafting this Offering Memorandum, there is a draft law passed by the State Duma and approved by the Federation Council reducing this rate to 15% for a Non-Resident Holder — Individual starting from 1 January 2008.

Withholding income tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of tax residency of the Non-Resident Holders subject to tax treaty clearance requirements being met, as described below in "— Tax Treaty Procedures." For example, the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains (the "**United Kingdom-Russia Tax Treaty**") provides for a 10% withholding income tax rate on dividends paid to a Non-Resident Holder who qualifies as a U.K. tax resident entitled to benefits under this treaty and who is the beneficial owner of the dividends and is subject to taxation in respect of these dividends in the United Kingdom, or a "U.K. Holder."

Taxation of Capital Gains

Legal entities and organisations

Under Russian tax legislation, capital gains arising from the sale, exchange or other disposition of the Shares by Non-Resident Holder-Legal Entities should not be subject to tax in Russia if the company's immovable property located in Russia constitutes 50% or less of its assets. We believe that our immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether 50% or less of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and because the relevant legislation and regulations are not entirely clear, there can be no assurance that the immovable property located in Russia does not currently, or will not in the future constitute more than 50% of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, a Non-Resident Holder-Legal Entity may be subject to:

- a 24% withholding tax rate on capital gains realised from the sale, being the difference between the sales price and the sum of the acquisition and disposal costs (which need to be evidenced by proper supporting documents) of the ordinary shares; or
- a 20% withholding tax rate on the gross proceeds from the sale of the ordinary shares.

Some tax treaties entered into by the Russian Federation provide for elimination of taxation of capital gains in Russia for Non-Resident Holder-Legal Entities qualifying for the relevant treaty benefits.

Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange.

There is a risk that the Tax Agents which are obligated to withhold tax on capital gains may not have sufficient information regarding the Company's assets to conclude what percentage consists of immovable property and could therefore conservatively seek to withhold tax on the consideration paid to the Non-Resident Holder-Legal Entities selling the Shares. If there is an applicable double tax treaty, Non-Resident Holder-Legal Entities may apply for a refund of a portion of the withholding tax, but there is no assurance that such refund will be obtained. See "— Tax Treaty Procedures."

Where the Shares are sold by a Non-Resident Holder-Legal Entity to persons other than a Russian company or a foreign legal entity or organisation with a permanent establishment in Russia even if the resulting capital gain is considered taxable Russian source income, there is currently no mechanism under which the relevant tax could be withheld and remitted to the Russian budget.

Individuals

According to Russian tax legislation, taxation of capital gains realised on a sale, exchange or other disposition of Shares by Non-Resident Holder-Individuals will depend on whether this income is considered as received from Russian or non-Russian sources. However, in the absence of a clear definition of what constitutes income from sources within Russia in the case of the sale of securities, there is a risk that income from the disposal of Russian securities (Shares) may be considered as received from Russian sources.

If gains from the sale, exchange or other disposition of the Shares by a Non-Resident Holder-Individual is considered Russian source income, a tax will be imposed and withheld in an amount equal to 30% at the source of payment if the sale is made by a Non-Resident Holder through a Tax Agent. The amount of tax withheld should be calculated after deducting the acquisition value and related expenses. The Tax Agent should report to the Russian tax authorities the income realised by the individual and tax withheld upon the sale of the securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made, and the Non-Resident Holder should file a tax return, report his income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Some tax treaties entered into by the Russian Federation provide for a reduction or elimination of taxation of capital gains in Russia for Non-Resident Holder-Individuals qualifying for the relevant treaty benefits.

U.K. Non-Resident Holder-Individuals whose income from the sale, exchange or other disposition of the Shares is taxed at source by withholding at a 30% rate may technically claim a refund of the tax withheld under the relevant treaty provisions. However, in practice these procedures are very time-consuming and more complicated than those for corporate holders, and a successful outcome for individuals is less likely. Under the United Kingdom-Russia Tax Treaty, capital gains from the sale of shares by U.K. Holders should not be subject to tax in Russia, unless the value of shares or the greater part of their value is derived directly or indirectly from immovable property located in Russia and the shares are not quoted on an approved stock exchange. With respect to a U.K. Holder-Individual, the treatment provided by the United Kingdom-Russia Tax Treaty may therefore be more beneficial than the treatment under domestic Russian tax law in circumstances where gains are derived from disposition of the Shares quoted on an approved stock exchange or in cases where the Company's shares are not quoted on any approved stock exchange but do not derive their value or greater part of their value directly or indirectly from immovable property situated in Russia.

In order to apply the treaties, the Non-Resident Holder-Individual must receive clearance from the Russian tax authorities. Advance treaty clearance is not provided for by the current Russian legislation and individuals wishing to make a treaty claim would be required to submit a tax return to the tax authorities as described below in "— Tax Treaty Procedures" to claim the refund of tax.

Tax Treaty Procedures

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These tax treaties may contain provisions that reduce or eliminate Russian tax due with respect to income received from a source within Russia by a Non-Resident Holder on the Shares.

A Non-Resident Holder-Legal Entity seeking to obtain relief from or reduction of Russian withholding income tax under a tax treaty must provide the Tax Agent with a confirmation of its tax residency for the purposes of the applicable double tax treaty, legalised or apostilled with a notarised Russian translation attached to it. The tax residency confirmation needs to be renewed on an annual basis, and provided to the payer of income before the first payment of income in each calendar year.

In addition, a Non-Resident Holder of the Shares that is a legal entity or an organisation should confirm that it has the actual right (legal title) to receive dividend income in order to obtain double taxation treaty benefits in respect of dividend income on the Shares. Under a number of double tax treaties a Non-Resident Holder of the Shares may be required to provide additional information, for instance on the amount of the investment made and/or the percentage of holding in the capital of the Company.

In accordance with the Russian Tax Code, a Non-Resident Holder-Individual must present to the tax authorities a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation of the income received and the tax paid in such foreign jurisdiction, as confirmed by the relevant foreign tax authorities. Technically, such requirements mean that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. A U.K. Non-Resident Holder may obtain the appropriate certification from his/her local Inspector of Taxes. As obtaining this certification may take some time, a U.K. Non-Resident Holder should apply for such certification in advance.

For individuals, advance relief from or reduction of withholding income taxes will generally be impossible to obtain as it is unlikely that the supporting documentation for the treaty relief will be provided to the Russian tax authorities and approval from the latter obtained before the receipt of dividends or sales proceeds occurs.

If a Non-Resident Holder does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the Non-Resident Holder may apply for a refund within three years from the end of the year in which the tax was withheld, if the recipient is a legal entity or organisation, or within one year from the end of the tax year in which the tax was withheld, if the recipient is an individual. To process a claim for a refund, the Russian tax authorities require: (1) an apostilled or legalised confirmation of the foreign tax residency of the Non-Resident Holder at the time the income was paid, as required by an applicable tax treaty; (2) an application for a refund of the tax withheld; and (3) copies of the relevant contracts or other documents based on which the income was paid, as well as payment documents confirming the payment of the tax that was withheld to the appropriate Russian authorities. (Form 1012DT for dividends and interest and 1011DT for other income are intended to combine (1) and (2) for foreign legal entities and organisations; individuals are also required to submit a document issued or approved by the tax authorities in the country in which they are residents for tax purposes, confirming the amount of income received and taxed in that country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month following the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, in practice, the procedures for processing such tax refund claims have not been clearly established and there is significant practical uncertainty regarding the availability and timing of such refunds.

Taxation of Russian Resident Holders

Taxation of dividends

Dividends paid to a holder of the Shares that is a Russian legal entity or who is an individual will be subject to Russian withholding tax at the rate of 9%.

The effective rate of tax may be lower than nine percent as the amount of tax should be determined as the product of the tax rate (nine percent) and the difference between (1) the amount of dividends to be distributed by the Company to its shareholders (other than to Non-Resident Holders of the Shares) and (2) the amount of dividends received by the Company in the current tax (accounting) period and in the preceding tax (accounting) period from Russian entities.

It is expected that the President will sign amendments to the profits tax chapter of the Tax Code which would introduce a zero percent tax rate on dividends received by qualifying Russian companies. Under the draft law a zero percent tax rate would apply to dividends received by Russian companies which own at least 50% of the paying company for a minimum holding period of one year and have invested at least US$20,000,000 into the paying company. Furthermore, if the payer of dividends is a foreign legal entity, the zero percent tax rate should apply if this foreign entity is not resident in a country which is included in the list of low tax jurisdictions and offshore zones provided by the Ministry of Finance of the Russian Federation. In addition, these amendments would introduce new formula for the calculation of dividends to be withheld by the Russian company. These amendments have been approved by the State Duma and the Federation Council and should come into effect from 1 January 2008 if approved by the President.

The Russian Tax Code does not clearly state which rate of withholding tax should apply to dividends payable to a holder of Shares that is a permanent establishment of a foreign legal entity (or organisation). According to the recommendations issued by the Russian tax authorities, withholding tax at the rate of 9% should apply to dividends paid to a Russian permanent establishment of a foreign legal entity (or organisation), provided that there is a double tax treaty between Russia and the country of tax residency of the relevant foreign legal entity and that treaty contains non-discrimination provisions. Otherwise, a 15% tax rate should apply. However, as application of the reduced tax rate is not specifically provided in the Russian Tax Code, no assurance can be given that application of a 9% tax rate on dividends paid to residents of the treaty jurisdictions would not be challenged by the Russian tax authorities.

Taxation of capital gains

Legal entities and organisations

Capital gains arising from the sale, exchange or other disposition of Shares by any non-individual Russian Resident Holder will be taxable at the regular Russian tax rate of 24%. Russian tax legislation contains a requirement that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profit from operations with securities that are not quoted on a stock exchange and from operating profit. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of the Shares only to offset capital gains, or as a carry forward to offset future capital gains from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer licence.

Individuals

Unless the tax is fully withheld at source, as discussed below, capital gains arising from the sale, exchange or other disposition of Shares by individuals who are Russian Resident Holders must be declared on the holder's annual tax declaration and are subject to personal income tax at a rate of 13%.

The tax base in respect of the sale of the securities by an individual is calculated as the sale proceeds less documentary confirmed expenses related to the purchase of such securities (including the cost of such securities and expenses associated with purchase, holding and sale of such securities). If the disposal proceeds are paid by a Tax Agent to the Russian Resident Holder that is an individual, the Tax Agent should withhold the applicable tax. The amount of tax withheld should be calculated after taking into account deductions for the acquisition value and related expenses. The Tax Agent would be required to report to the Russian tax authorities the income realised by the resident individual and tax withheld upon the sale of securities by 1 April of the year following the reporting year. When a sale is made in other circumstances, generally no withholding of tax needs to be made and the Resident Holder would have an obligation to file a tax return, report income realised and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

PLAN OF DISTRIBUTION

The Selling Shareholder is offering 3,125,000 Shares in this Offering. The Shares are being offered to investors in the Russian Federation and to qualified investors in offshore transactions in certain other countries outside of the United States in reliance on Regulation S of the Securities Act and outside of Australia, Canada, Japan and the Republic of Ireland.

We, the Selling Shareholder and the Lead Manager have entered into the underwriting agreement dated 1 June 2007 with respect to this Offering and the arrangements for the transfer of proceeds relating thereto (the "**Offering Arrangements**"). Subject to the terms and conditions set out in the Offering Arrangements, the Lead Manager has agreed to procure purchasers for or, failing that, to itself purchase, the Shares, and the Selling Shareholder will transfer 3,125,000 Shares to the Lead Manager for the delivery of the Shares to purchasers procured by the Lead Manager.

We and the Selling Shareholder will agree in the Offering Arrangements to indemnify the Lead Manager against certain liabilities in connection with the Offering.

The Company and the Selling Shareholder will not, for a period of 180 days after 14 June 2007, without the prior written consent of the Lead Manager, such consent not to be unreasonably withheld or delayed, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such issuance, offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any shares of the Company or securities convertible or exchangeable into or exercisable for any shares of the Company or warrants or other rights to purchase shares of the Company or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying Shares, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such Shares except pursuant to the transactions contemplated by the Closed Subscription.

All the net proceeds from the Offering will be received by the Selling Shareholder. The Selling Shareholder will use a portion of the proceeds from the Offering to subscribe for the New Shares in the Closed Subscription at a price equal to the Offering Price net of the portion of fees and expenses incurred in connection with the Offering and attributable to us. We will use the proceeds derived from the Closed Subscription primarily to construct new restaurants in the remainder of 2007 and in 2008 in Russia, the CIS and Central Europe (and the Baltics); optimise our leverage profile; strengthen our existing network in order to support expansion; pursue potential acquisitions; and fund the buy-out of all or part of the shares in our subsidiaries owned by some of our partners. See "Use of Proceeds."

The total expenses of the Offering will include pre-Offering reorganisation expenses, commissions payable to the Lead Manager, legal expenses, accountants' fees, bonuses to our management, expenses for conducting a road show, printing expenses, registrar's fees and other miscellaneous expenses which will be paid from the proceeds of the Offering. The estimated expenses are not expected to exceed 7.66% of the gross proceeds of the Offering.

No action has been or will be taken in any jurisdiction other than the Russian Federation that would permit a public offering of the Shares. No action has been or will be taken in any jurisdiction where action is required for the possession, circulation or distribution of this Offering Memorandum. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisement in connection with the Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this Offering Memorandum, and, if given or made, such information or representation must not be relied upon as having been authorised by us or the Lead Manager. This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this Offering Memorandum is correct as of a date after its date.

European Economic Area

In relation to each Relevant Member State, an offer to the public of any of the Shares which are the subject of the Offering contemplated by this Offering Memorandum may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any such Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43 million and (3) an annual net turnover of more than EUR 50 million, as shown in its last annual or consolidated accounts;

(c) by the Lead Manager to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Shares shall result in the requirement for the publication by us, the Selling Shareholder or the Lead Manager of a prospectus pursuant to the Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any of the Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any of the Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Finland

This Offering Memorandum does not constitute a public offer or an advertisement of securities to the public in Finland. The Shares will not and may not be offered, sold, advertised or otherwise marketed in Finland under circumstances that would constitute a public offering of securities under Finnish law. Any offer or sale of the Shares in Finland will be made pursuant to a private placement exemption as defined under Article 3(2) of the Prospectus Directive and the Finnish Securities Markets Act (1989/495, as amended) and any regulation made thereunder, as supplemented and amended from time to time. This Offering Memorandum has not been approved by or dispatched to the Finnish Financial Supervision Authority.

France

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the Shares that has been approved by the *Autorité des marchés financiers* or by the competent authority of another Member State and notified to the *Autorité des marchés financiers*; no Shares have been offered or sold nor will be offered or sold, directly or indirectly, to the public in France; the prospectus or any other offering material relating to the Shares have not been distributed or caused to be distributed and will not be distributed or caused to be distributed to the public in France; such offers, sales and distributions have been and shall only be made in France to persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) but except for individuals, investing for their own account, as defined in Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French Code monétaire et financier. The direct or indirect distribution to the public in France of any so acquired Shares may be made only as provided by Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French Code monétaire et financier and applicable regulations thereunder.

Italy

The offering of the Shares has not been registered pursuant to Italian securities legislation and, accordingly, the Lead Manager has represented and agreed that, save as set out below, it has not offered or sold, and will not offer or sell, any Shares in Italy in a solicitation to the public and that sales of the Shares in Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Accordingly, the Lead Manager has represented and agreed that it will not offer, sell or deliver any Shares or distribute copies of this Offering Memorandum and any other document relating to the Shares in Italy except:

(1) to "professional investors," as defined in Article 31.2 of Regulation No. 11522, pursuant to Article 30.2 and 100 of Decree No. 58);

(2) that it may offer, sell or deliver Shares or distribute copies of any prospectus relating to such Shares in a solicitation to the public in the period commencing on the date of publication of such prospectus, provided that such prospectus has been approved in another Relevant Member State and notified to CONSOB, all in accordance with the Prospectus Directive, as implemented in Italy under Decree 58 and Regulation No. 11971, and ending on the date which is 12 months after the date of publication of such prospectus; and

(3) in any other circumstances where an express exemption from compliance with the solicitation restrictions applies, as provided under Decree No. 58 or Regulation No. 11971.

Any such offer, sale or delivery of the Shares or distribution of copies of the Offering Memorandum or any other document relating to the Shares in Italy must be:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended, Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations; and

(b) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Investors should also note that, in any subsequent distribution of the Shares in Italy, Article 100-*bis* of Decree No. 58 may require compliance with the law relating to public offers of securities. Furthermore, where the Shares are placed solely with professional investors and are then systematically resold on the secondary market at any time in the 12 months following such placing, purchasers of Shares who are acting outside of the course of their business or profession may in certain circumstances be entitled to declare such purchase void and, in addition, to claim damages from any authorised person at whose premises the Shares were purchased, unless an exemption provided for under Decree No. 58 applies.

Sweden

This Offering Memorandum has not, and will not be registered with the Swedish financial supervisory authority. Accordingly, this Offering Memorandum may not be made available, nor may the Shares otherwise be marketed and offered for sale, in Sweden other than in circumstances which are deemed not to be an offer to the public in Sweden under the Financial Instruments Trading Act (1991:980).

Switzerland

The Shares may not and will not be publicly offered, distributed or re-distributed in Switzerland, and neither this Offering Memorandum nor any other solicitation for investments in the Shares may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Article 652a of the Swiss Code of Obligations. This Offering Memorandum may not be copied, reproduced, distributed or passed on to others without the Lead Manager's prior written consent. This Offering Memorandum is not a prospectus within the meaning of Article 652a of the Swiss Code of Obligations and may not comply with the information standards required thereunder. We will not apply for a listing of the Shares on any Swiss stock exchange or other Swiss regulated market, and this Offering Memorandum may not comply with the information required under the relevant listing rules.

United Kingdom

The Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the sale of the Shares in circumstances in which section 21(1) of the FSMA does not apply; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Shares in, from or otherwise involving the United Kingdom.

United States

The Shares have not been, and will not be, registered under the Securities Act or the securities act of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the Securities Act and any applicable state securities laws. The Shares are being offered and sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S. In addition, until 40 days after commencement of the Offering, an offer or sale of the Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

United Arab Emirates

The Lead Manager has represented and agreed that the Shares have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates or the Dubai International Financial Centre other than in compliance with laws applicable in the United Arab Emirates or the Dubai International Financial Centre, as the case may be, governing the issue, offering and sale of the shares. Furthermore, the information contained in this Offering Memorandum does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise, and is not intended to be a public offer and is addressed only to persons who are sophisticated investors. Further, the information contained in this Offering Memorandum is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Other Restricted Jurisdictions

The Shares will not be offered or sold in or to any resident of, and no offer to buy the Shares will be solicited in or from any resident of, Australia, Canada, Japan or the Republic of Ireland in connection with the Offering, and neither this Offering Memorandum nor any confirmation of sale shall be delivered to any address in any such country.

SETTLEMENT, CLEARING AND TRADING

You must pay for the Shares in U.S. dollars or Roubles on or before 14 June 2007, and the Shares will be delivered to you on or about 1 June 2007. The Rouble equivalent of the Offering Price is determined on the basis of the exchange rate of the CBR quoted one day prior to the relevant payment date. In order to take delivery of the Shares, you should have either (i) a direct account with the Registrar; or (ii) a deposit account with DCC; or (iii) any other depositary that has an account with DCC or a direct account with the Registrar. Investors may at their own expense choose to hold the Shares through a direct account with our share registrar. However, directly held Shares are ineligible for trading on the RTS.

The Shares are admitted to trading on the RTS under the symbol „ROST". Prior to the Offering, there has been no public market for the Shares. Trading in the Shares on the RTS is expected to start on or about 1 June 2007. The ISIN of the Shares is RU000A0JP922.

INDEX TO FINANCIAL STATEMENTS

OJSC Rosinter Restaurants Holding
Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

ERNST & YOUNG

■ Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (495) 705-9700
7 (495) 755-9700
Fax: 7 (495) 755-9701
www.ey.com/russia

■ ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (495) 705-9700
7 (495) 755-9700
Факс: 7 (495) 755-9701
ОКПО: 59002827

INDEPENDENT AUDITORS' REPORT

To the shareholders of OJSC Rosinter Restaurants Holding

We have audited the accompanying consolidated financial statements of OJSC Rosinter Restaurants Holding and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated 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 auditors' 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.

ERNST & YOUNG

■ Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (495) 705-9700
7 (495) 755-9700
Fax: 7 (495) 755-9701
www.ey.com/russia

■ ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (495) 705-9700
7 (495) 755-9700
Факс: 7 (495) 755-9701
ОКПО: 59002827

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 2 to the consolidated financial statements which indicates that the Group had a deficit on equity of US dollars 23,848 thousand as of 31 December 2006 and, as of that date, the Group's current liabilities exceeded its current assets by US dollars 41,464 thousand. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young LLC

8 May 2007

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED BALANCE SHEETS

(All amounts are in thousands of US dollars)

	Notes	December 31, 2006	December 31, 2005
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	62,739	53,016
Intangible assets	**5**	6,105	3,963
Long-term loans due from related parties	**12**	240	-
Deferred income tax asset	**15**	4,908	2,841
Other non-current assets		1,584	1,499
		75,576	**61,319**
Current assets			
Inventories	**7**	4,345	3,245
Prepayments and receivables	**8**	9,991	24,932
Short-term loans		151	12
Short-term loans due from related parties	**12**	1,835	1,601
Receivables from related parties	**12**	1,713	1,985
Cash and cash equivalents	**9**	6,223	3,322
		24,258	**35,097**
TOTAL ASSETS		**99,834**	**96,416**
EQUITY AND LIABILITIES			
Share capital	**10**	58,545	85,214
Additional paid- in capital	**10**	14,523	10,138
Accumulated losses		(99,509)	(120,447)
Translation difference		2,593	2,380
TOTAL DEFICIT ON EQUITY		**(23,848)**	**(22,715)**
Non-current liabilities			
Long-term debt due to related parties	**12**	1,150	415
Long-term debt	**13**	38,684	44,924
Finance lease liabilities	**14**	294	-
Long-term liabilities under partnership agreements	**11**	14,597	9,345
Deferred income tax liabilities	**15**	3,220	3,314
Other liabilities		15	16
		57,960	**58,014**
Current liabilities			
Trade and other payables	**16**	23,154	21,200
Short-term debt	**17**	31,774	18,576
Short-term debt due to related parties	**12**	2,098	2,918
Payables to related parties	**12**	5,176	16,273
Current portion of finance lease liabilities	**14**	362	-
Current liabilities under partnership agreements	**11**	3,158	2,150
		65,722	**61,117**
TOTAL EQUITY AND LIABILITIES		**99,834**	**96,416**

The accompanying notes form an integral part of these consolidated financial statements

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED INCOME STATEMENTS

(All amounts are in thousands of US dollars, except for earnings per share)

	Notes	December 31, 2006	December 31, 2005
Revenue	**18**	**218,626**	**165,712**
Cost of sales	**19**	(137,901)	(106,607)
Gross profit		**80,725**	**59,105**
Selling, general and administrative expenses	**20**	(62,734)	(49,239)
Foreign exchange gains/(losses), net		672	(644)
Other gains/(losses), net	**21**	(6,089)	(591)
Profit from operating activities		**12,574**	**8,631**
Financial income	**22**	705	1,086
Financial expense	**22**	(12,152)	(9,238)
Profit before income tax		**1,127**	**479**
Income tax (expense) / benefit	**15**	(348)	120
Net profit for the year		**779**	**599**
Earnings per share, basic and diluted, US dollars	**10**	**0.08**	**0.06**

The accompanying notes form an integral part of these consolidated financial statements

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts are in thousands of US dollars)

	Share capital	*Addition paid-in capital*	*Accumulated losses*	*Translation difference*	***Total Equity***
At January 1, 2005	**85,214**	**-**	**(93,387)**	**-**	**(8,173)**
Effect of exchange rate changes	-	-	-	2,380	**2,380**
Total income for the year recognised directly in equity	**-**	**-**	**-**	**2,380**	**2,380**
Net profit	-	-	599		**599**
Total income for the year	**-**	**-**	**599**	**2,380**	**2,979**
Additional paid-in capital contribution *(Note 10)*		10,138			**10,138**
Distribution to parent company *(Note 10)*	-	-	(27,659)	-	**(27,659)**
At December 31, 2005	**85,214**	**10,138**	**(120,447)**	**2,380**	**(22,715)**
Effect of exchange rate changes	-	-	-	213	**213**
Total income for the year recognised directly in equity	**-**	**-**	**-**	**213**	**213**
Net profit	-	-	779	-	**779**
Total income for the year	**-**	**-**	**779**	**213**	**992**
Decrease in share capital *(Note 10)*	(26,669)	-	26,669	-	**-**
Additional paid-in capital contribution *(Note 10)*	-	4,385	-	-	**4,385**
Distribution to parent company *(Note 10)*	-	-	(6,510)		**(6,510)**
At December 31, 2006	**58,545**	**14,523**	**(99,509)**	**2,593**	**(23,848)**

The accompanying notes form an integral part of these consolidated financial statements

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts are in thousands of US dollars)

	December 31,	
	2006	**2005**
Cash flow from operating activities		
Net profit for the year	779	599
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation and amortisation	8,153	8,274
Foreign exchange (gains) / losses, net	(672)	644
Financial income *(Note 22)*	(705)	(1,086)
Financial expense *(Note 22)*	12,152	9,238
Allowance for doubtful accounts and other receivables write-off *(Note 20)*	3,574	1,274
Allowance for slow-moving and damaged items	(278)	453
Loss on disposal of non-current assets	2,371	1,336
Deferred income tax benefit	(2,024)	(959)
	23,350	**19,773**
Changes in operating assets and liabilities:		
Increase in inventories	(585)	(1,651)
Increase in prepayments, receivables and other assets	(3,787)	(21,078)
(Increase)/decrease in receivables from/payables to related parties	(1,540)	15,474
(Decrease)/increase in taxes payable	(706)	855
Increase in trade and other payables	7,230	10,185
Net cash flows from operating activities	**23,962**	**23,558**

Continued on the next page

The accompanying notes form an integral part of these consolidated financial statements

OJSC ROSINTER RESTAURANTS HOLDING

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(All amounts are in thousands of US dollars)

	December 31,	
	2006	**2005**
Cash flows from investing activities		
Issuance of loans to third parties	(296)	-
Proceeds from repayment of loans issued to third parties	162	-
Loans issued to related parties	(3,553)	(1,942)
Proceeds from repayment of loans issued to related parties	4,207	7,393
Purchases of property, plant and equipment	(17,908)	(18,944)
Proceeds from disposal of property, plant and equipment	3,472	1,262
Purchase of intangible assets	(2,217)	(1,339)
Proceeds from disposal of intangible assets	81	-
Interest received from bank deposit	390	1,039
Net cash flows used in investing activities	**(15,662)**	**(12,531)**
Cash flows from financing activities		
Proceeds from related party loans	1,040	2,311
Repayment of related party loans	(645)	(4,795)
Distribution to parent company	(6,510)	(27,659)
Proceeds from partners under partnership agreements *(Note 11)*	7,069	6,828
Amounts paid under partnership agreements (*Note 11)*	(6,739)	(5,029)
Proceeds from bank loans *	98,880	190,465
Repayment of bank loans *	(95,444)	(175,593)
Bank interest paid	(7,359)	(7,011)
Interest paid to related parties	(614)	(165)
Proceeds from trademark sales *(Note 21)*	15,000	-
Payments in connection with trademark sales *(Note 21)*	(14,579)	-
Proceeds from cash capital contribution *(Note 10)*	4,385	10,138
Net cash flows used in financing activities	**(5,516)**	**(10,510)**
Effect of exchange rate changes on cash and cash equivalents	117	113
Net increase in cash and cash equivalents	2,901	630
Cash and cash equivalents at beginning of year	3,322	2,692
Cash and cash equivalents at end of year	6,223	3,322
Supplementary cash flow information:		
Cash paid for income tax	1,666	1,694

*The Group uses financing which, due to the short term nature of this debt (i.e. 3 to 11 months), requires repayment and reissuance several times throughout the year.

.

The accompanying notes form an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

OJSC Rosinter Restaurants Holding (the "Company") was registered as a Russian open joint stock company on May 24, 2004. The registered and headquarter address of the Company is at 7 Dushinskaya str., Moscow, 111024, Russia. RIG Restaurants Ltd., a limited liability company (the "Parent") (formerly known as Rostik Restaurants Limited) incorporated under the laws of Cyprus, owns 100% of the Company's share capital. RIG Restaurants Limited is under the ultimate control of Mr. Rostislav Ordovsky-Tanaevsky-Blanco.

OJSC Rosinter Restaurants Holding and its subsidiaries (the "Group") is the leading casual dining operator in Russia and CIS both by number of restaurants and by revenue. The Group's business is focused in serving the most popular cuisines in Russia: Italian, Japanese, American and local Russian cuisine.

The Group derives approximately 90% of its revenues from restaurant business sales:

- most of the Group's restaurants operate under its core proprietary trademarks: "IL Patio pizza pasta grill", "Planet Sushi", "American Bar and Grill", "Café Des Artistes", "Pechki-Lavochki", "El Rincon Espanol", "Moka Loka", and "1 2 3 Cafe". The Group also owns the "Santa Fe" restaurant.
- other restaurants operate under licensed trademarks: "T.G.I. Friday's", "Sibirskaya Korona" and "Benihana".

Other revenue of the Group represents revenue from the network of independent franchisees in Moscow and throughout Russia and the CIS.

The Group's principal business activities are concentrated within the Russian Federation, but it also operates in Ukraine, Belarus, Kazakhstan, Latvia, Czech Republic and Hungary. The Group also has exclusive development rights and/or registered trademarks in Azerbaijan, Kyrgyzstan, Uzbekistan, Moldova, Estonia, Lithuania, Austria, Poland, Czech Republic, Hungary, Slovenia, Slovakia, Romania, Croatia, Macedonia, Bulgaria, Serbia and Montenegro.

The Group has been formed during 2004 to 2006 through a reorganization of entities under common control of the parent company, RIG Restaurants Limited (the "parent"), in which the shares of the subsidiaries were contributed into the share capital of OJSC Rosinter Restaurants Holding.

As a result of the reorganisation, these consolidated financial statements have been prepared using the pooling of interests method, and as such, the financial statements, including corresponding figures, have been presented as if transfers of ownership interests in subsidiaries had occurred at the beginning of the earliest period presented (i.e. January 1, 2005).

The consolidated financial statements of OJSC Rosinter Restaurants Holding for the year ended December 31, 2006 were authorised for issue in accordance with a resolution of the Managing Director on May 8, 2007.

The Group derives revenue in the territory of Russia and other CIS countries, Baltic States and European countries. For the years ended December 31, 2006 and 2005, the revenues from the Russian market were approximately 83% and 84% of total revenues, respectively.

As of December 31, 2006 and 2005, the Group employed approximately 7,200 and 7,500 people, respectively.

(All amounts are in thousands of US dollars, unless specified otherwise)

1. CORPORATE INFORMATION (CONTINUED)

The Company had a controlling ownership interest, directly or indirectly, in the following principal subsidiaries:

Entity	Country of incorporation	2006 % Ownership	2005 % Ownership
ROSINTER RESTAURANTS LLC	Russia	98.00%	98.00%
CJSC Rosinter Restaurants Account	Russia	98.00%	98.00%
CJSC RBP-Zvezdochka	Russia	98.00%	98.00%
Resto Star LLC	Russia	98.00%	98.00%
Rosinter Restaurants MO LLC	Russia	98.00%	98.00%
InnCorpService LLC	Russia	98.00%	98.00%
Honored Guest LLC	Russia	100.00%	100.00%
Inkorost (Omsk) LLC	Russia	60.00%	60.00%
Rosinter Restaurants Ufa LLC	Russia	51.00%	51.00%
Rosinter Restaurants Tatarstan LLC	Russia	51.00%	51.00%
Rosinter Restaurants Togliatti LLC	Russia	51.00%	51.00%
Rosinter Restaurants Perm LLC	Russia	51.00%	51.00%
JV CJSC RosInter (Novosibirsk)	Russia	94.45%	94.45%
BelRosInter LLC	Belarus	58.59%	58.59%
Rosinter Almaty LLC	Kazakhstan	51.00%	51.00%
Rosinter Ukraine LLC	Ukraine	51.00%	51.00%
RosInter-F LLC	Ukraine	51.00%	51.00%
AmInvest Limited	Cyprus	100.00%	99.97%
SIA Rosinter Restaurants	Latvia	51.00%	51.00%
SIA Food Service	Latvia	51.00%	51.00%
RIGS Services Limited	Cyprus	100.00%	100.00%
Rosinter Andel s.r.o.,	The Czech Republic	100.00%	100.00%
Rosinter Czech Republic, s.r.o.	The Czech Republic	100.00%	100.00%
Rosinter Hungary Kft	Hungary	100.00%	100.00%
Rosinter Oktogon Kft	Hungary	100.00%	100.00%

During 2005 and 2006, the Group opened 70 new restaurants. As of December 31, 2006, the Company operated 174 restaurants and 14 other outlets.

In addition, the Group continues to develop a casual dining restaurant business on a franchise agreement basis. The Group opened 6 and 12 franchise restaurants in Moscow city and Moscow region in 2005 and 2006, respectively.

2. GOING CONCERN

These financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. As of December 31, 2006, the Group had a deficit on equity of $23,848 and its current liabilities exceeded its current assets by $41,464 as of the same date. The group made a net profit of $779 and $599 for 2006 and 2005, respectively. The group generated cash flows from operating activities of $23,962 and $23,558 in 2006 and 2005, respectively.

2. GOING CONCERN (CONTINUED)

The deficit on equity of $23,848 as of December 31, 2006 primarily resulted from distributions to RIG Restaurants Limited during 2004 to 2006 of $64,263 in the form of loans which were subsequently forgiven.

The Group's current liabilities as of December 31, 2006 of $65,722 exceeded its current assets by $41,464. The net current liability position primarily relates to short-term debt of $31,774, trade and other payables of $23,154 and short-term debt and payables to related parties of $7,274.

The Group has historically financed its operations and growth through cash flows from operations and third-party financing, a significant portion of which outstanding at December 31, 2006, is payable in 2007. Despite an expectation of continued positive cash flows from operations in 2007, the Group is dependent on refinancing its existing debt and/or raising additional cash through other debt or equity transactions to continue its operations as planned through 2007. However, there can be no assurance that such funds will be available when needed or on terms that would be acceptable to the Group. Management's plans to address these issues are discussed below.

Group management believes that it is appropriate to prepare the financial statements on a going concern basis as the Group has undertaken several initiatives aimed at improving performance and liquidity, including, but not limited to, the following:

a) In November to December 2006, 29% of the bondholders exercised their put option which resulted in approximately $11,000 having to be repaid through short term bank loans. Subsequent to December 31, 2006, these bonds were repurchased by investors in the market with a new put option exercisable May 30, 2008 and a maturity date of November 26, 2010.

b) The Group extended approximately $5,000 of Sberbank short-term debt from Q1 2007 to Q3 2007. Management believes that, if required, a further extension is likely, due to the Group's strong relationship with Sberbank. Given the Group's long-term relationship with other banks, management believes that, if required, an extension of other short-term loans is probable. In addition, the Group has $2,130 of open credit lines as of December 31, 2006 and approximately $13,000 of credit line requests pending the approval of credit committees of these banks.

c) Management has introduced enhanced operational initiatives designed to improve the Group's liquidity and its capital expenditure process. Actions implemented include, among others, an improvement in the business economics through savings in labour, food and beverage costs, and an increased franchised component in its new restaurant development plan. Based upon the Group's operating plan, management expects cash flow from operating activities for 2007 to increase over 2006.

d) If necessary, payables and short-term debts to related parties in the amount of $7,274 as of December 31, 2006 can be renegotiated and extended to 2008 or later.

Management believes that the combination of the aforementioned initiatives will provide the Group with the liquidity necessary for it to continue to finance its operations through at least June 2008.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary if such additional resources are not available and the Group is unable to continue as a going concern.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Preparation

Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which they are incorporated and registered. Accounting policies and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Group's statutory based accounting records, reflect adjustments and reclassifications necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies in Note 4.

As discussed above, the Group was formed through the reorganization of entities under common control using the pooling of interests method. Assets and liabilities were recognized using the carrying value of the predecessor companies.

As the Group has not previously prepared IFRS financial statements it qualifies as a first time adopter under IFRS 1. IFRS 1 requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet and requires specific reconciliations of equity reported under previous GAAP to its equity under IFRS. No reconciliation is presented in these consolidated financial statements because the Group did not exist previously.

Adoption of New and Revised International Financial Reporting Standards

The Group has adopted IFRS effective at December 31, 2006 from January 1, 2005, the date of transition to IFRS.

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments"
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions";
- IFRIC 12 "Service Concession Arrangements".

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

Adoption of New and Revised International Financial Reporting Standards (continued)

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after January 1, 2007.

The amendment of IAS 1 "Presentation of Financial Statements - Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after January 1, 2007.

IFRS 8 "Operating Segments" requires disclosure of information about an entity's operating segments. The provisions are effective for reporting periods beginning on or after January 1, 2009.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after May 1, 2006.

IFRIC 9 clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after June 1, 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after November 1, 2006.

IFRIC 11 addresses the issue as to whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after March 1, 2007.

IFRIC 12 addresses the accounting issues relating to the service concession arrangements. An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's results of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Principles of Consolidation

Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Some of the Group's subsidiaries are incorporated in the legal form of limited liability companies (LLC) and have several participants. Each participant had a right to a dividend distribution proportional to its ownership interest. If a participant decides to exit the LLC, the company is obliged to repay the actual value of the participant's interest which was determined as its proportional share of net assets reported in the Russian statutory accounts. Therefore, the minority interest in these LLCs is classified as a liability in the Group's consolidated balance sheet. The income attributed to the minority is shown as a finance expense in the consolidated income statement.

Acquisition of Subsidiaries from Parties under Common Control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interests method. The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. These financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investment in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in equity. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Principles of Consolidation (continued)

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income. During the years ended December 31, 2006 and 2005, the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. During the period the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Other non-current assets include rent security deposits made by the restaurants.

Functional and Presentation Currency

The Group has chosen the US dollar as the presentation currency as being more convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Company and its subsidiaries located in the Russian Federation is the Russian rouble (the “rouble”). The functional currency of the subsidiaries located in other countries is other local currency. The translation of the financial statements from the functional currency to the presentation currency is done in accordance with the requirements of IAS 21 “The Effects of Changes in Foreign Exchange Rates” (revised). As at the reporting date, the assets and liabilities of the subsidiaries which use the rouble or other local currency as the functional currency are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Equity items, other than the net profit or loss for the period that is included in the balance of accumulated profit or loss, are translated at the historical exchange rate effective at the date of transition to IFRS. Equity transactions measured in terms of historical cost in a functional currency are translated using the exchange rates at the date of the transaction.
The exchange differences arising on the translation are taken directly to a separate component of equity.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Functional and Presentation Currency (continued)

Transactions in foreign currencies in the Company and each subsidiary are initially recorded in the functional currency at the rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Cash and cash equivalents

Cash comprises cash at banks and in hand, cash in transit and short-term deposits with an original maturity of three months or less.

Prepayments and Receivables

Prepayments and receivables, which generally have a short term, are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Value Added Tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

Value Added Tax Payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due at the balance sheet date, was included in the VAT payable line item.

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debt, including VAT.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

(All amounts are in thousands of US dollars, unless specified otherwise)

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Inventories

Inventories, which include food, beverages and other supplies, are stated at the lower of cost or net realizable value. Cost of inventory is determined on the first-in, first-out basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. 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 difference is recognised as an expense (impairment loss) 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 recoverable amount.

Depreciation is calculated principally on a straight-line basis over the following estimated economic useful lives:

Description	Useful life, years
Leasehold improvements and buildings	Shorter of lease period or 10 years
Restaurant and small equipment	4-10 years
Office furniture and fixtures	10 years
Machinery and equipment	10 years
Motor vehicles	5-10 years
Computer and electronic equipment	4 years

Depreciation attributable to restaurants is presented in cost of sales; other depreciation is presented within selling, general and administrative expenses in the consolidated income statement.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are derecognised. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated income statement as incurred.

Borrowing costs

Borrowing costs of the Company include interest on bank overdrafts and short-term and long-term credit facilities. Borrowing costs of the Company that are directly attributable to the construction of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred. For the year ended December 31, 2006 and 2005, the Group capitalized borrowing costs for leasehold improvements in the amount of $529 and $378, using the capitalization rate of 4.95% and 2.97%, respectively.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Start-up expenses for new restaurants

Start-up expenses for new restaurants represent costs related to the construction and the opening of new restaurant premises. Such expenses include rent and payroll expenses, new personnel training and other overhead expenses that arose before the opening of new restaurants. Start-up expenses for new restaurants are recognised as general and other operating expense in the accounting period the related work was performed.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the useful economic lives from 4 to 15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset. The following specific amortization terms are applied for each type of intangible asset:

The Group capitalises franchise lump sums paid to T.G.I. Friday's Inc for each new restaurant opened by the Group under "T.G.I. Friday's" brand name. Such franchise lump sums are amortized on a straight-line basis over the franchise contractual period of 15 years.

The Group has exclusive rights to lease and sublease a number of restaurant premises. These rights are accounted for at cost and are amortized on a straight-line basis over the useful life period, generally from 4 to 10 years.

Software development costs are capitalized in accordance with requirements of IAS 38 at cost and are amortized on a straight-line basis over their estimated useful lives, generally five years.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Depending on contractual terms, the operating lease payment amounts are calculated for each restaurant as either a percentage of revenue or as a fixed monthly payment and are recognized as an expense in the consolidated income statement over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Loans

Loans and credit facilities are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and credit facilities are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the loan.

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 will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Equity

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 additional paid-in capital.

Liabilities under the partnership agreements

The Group enters into partnership agreements with third parties (the "Partners") in respect of opening and operating the new restaurants. In accordance with the partnership agreements, the Partners have the right to obtain a share in profits of a particular restaurant or group of restaurants in return for their initial cash investments into the restaurants. The Group manages the operations of the restaurants.

The Group recognizes all assets and liabilities of the restaurant in the Group's consolidated financial statements as well as all income and expenses from their operations. In addition, the Group recognizes a liability to Partners under the partnership agreements. At initial recognition, the liability to Partners is recognised at its fair value which is equal to the initial cash investment of the Partner. Subsequently, the liability to Partners is measured at amortised cost which is calculated as the net present value of the estimated future payments to the Partner using an effective interest method and any unwinding of the discount is reflected in the income statement as a finance charge. If the estimates of the future cash payments to the Partner change, the carrying amount of the liability is recalculated by computing the present value of estimated future cash flows at the original effective interest rate. The adjustment is recognised as finance income or expense in the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Revenue Recognition

Revenues are recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or receivable and comprises amounts received following direct sales in restaurant and amounts received or receivable from franchise holders, net of any rebates, VAT and other sales taxes.

The following specific recognition criteria must also be met before revenue is recognized:

Revenues from restaurants

Restaurant revenues are recognized when food and beverages are served. Revenues from food distribution are recognized upon delivery to the customers. Revenues are recognized at fair value of meals and services delivered, net of value added tax charged to customers.

Franchise revenues

Franchise fees comprise continuing franchise fees, which are charged for the use of the continuing rights granted by the franchise agreements and for other services provided during the period of the agreement. Franchise fees are recognized as revenues as the rights are used or the services are provided.

Sublease revenues

The Group leases certain premises. Parts of these premises are subleased to third parties. Sublease revenues are recognized over the lease term.

Royalty income

The Group owns several trademarks and intellectual properties. Royalty income from an individual licensee is recognized as a percentage of its revenue over the period of the royalty agreement. Royalty fees are reported as royalty revenue when the fees are earned and become receivable.

Interest income

Interest is recognized using the effective interest method.

Loyalty programs

The Group operates the "Honoured Guest" and "Malina" loyalty programs to provide customers with incentives to buy its services. Each time a customer buys meals in one of the Group's restaurants, the Group grants the customer award credits. The customer can redeem the award credits for free meals or other free or discounted goods and services.

The Group recognizes the obligation to give customers free or discounted goods or services at the time of the initial sale. This obligation is measured by the cost of revenues required to settle the obligation.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is provided for temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Accounting Judgements and Estimates

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of lease agreements

A lease is classified as a finance lease if it transfers to the Group substantially all the risks and rewards incidental to ownership, otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. If the lease term is longer than 75 percent of the economic life of the asset, or if at the inception of the lease the present value of the minimum lease payments amounts to at least 90 percent of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

Partnership agreements

In order to raise capital for the development of its restaurants in the Moscow region, the Group has entered into a number of partnership agreements. The Group has determined that, under the terms of the partnership agreements, it maintains full control of the restaurants business while partners gain a share in the profits of the restaurants.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Accounting Judgements and Estimates (continued)

Estimation Uncertainty

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

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of property, plant and equipment

Generally, the Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset’s recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, which is determined as the higher of an assets fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The Group recognized no impairment losses for the years ended December 31, 2006 and 2005 .

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to provide for losses from the inability of suppliers to deliver goods or services for which they received prepayments from the Group. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on specific analysis of the major outstanding prepayments and accounts receivable balances and historical write-off experience. If the financial condition of those suppliers were to deteriorate, actual write-offs might be higher than expected. As of December 31, 2006 and 2005, the allowance for doubtful accounts amounted to $2,156 and $1,575, respectively.

Allowance for slow moving and damaged inventory

Management of the Group regularly reviews the need to provide for slow moving or damaged inventory based on monthly aging and inventory turnover report as well as based on physical inventory observation. As of December 31, 2006 and 2005, the allowances for obsolete inventory amounted to $1,217 and $1,453, respectively.

4. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Estimation Uncertainty (continued)

Current Taxes

Russian tax legislation is subject to varying interpretation and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest. The periods remain open to review by the tax authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. During the years ended December 31, 2006 and 2005, the Group reduced its costs of operations by approximately $8,000 and $10,000, respectively, through the utilization of certain tax planning strategies. See also Note 23 – Contingencies.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from such estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In such an event, the assessment of future utilization of deferred tax assets must be reduced and this reduction be recognized in profit or loss.

(All amounts are in thousands of US dollars, unless specified otherwise)

5. INTANGIBLE ASSETS

The movement in intangible assets for the year ended December 31, 2005 was as follows:

	Franchise rights *	Exclusive rent rights **	Trademarks	Software	Total
Cost					
At January 1, 2005	573	2,546	34	604	3,757
Additions	-	610	3	724	1,337
Disposals	-	(30)	-	-	(30)
Translation difference	(77)	(230)	(23)	(130)	(460)
At December 31, 2005	496	2,896	14	1,198	4,604
Accumulated amortization					
At January 1, 2005	(145)	(164)	(18)	(83)	(410)
Charge for the year	(77)	(293)	(8)	(72)	(450)
Translation difference	112	54	24	29	219
At December 31, 2005	(110)	(403)	(2)	(126)	(641)
Net Book Value					
At January 1, 2005	**428**	**2,382**	**16**	**521**	**3,347**
At December 31, 2005	**386**	**2,493**	**12**	**1,072**	**3,963**

(All amounts are in thousands of US dollars, unless specified otherwise)

5. INTANGIBLE ASSETS (CONTINUED)

The movement in intangible assets for the year ended December 31, 2006 was as follows:

	Franchise rights *	Exclusive rent rights **	Trademarks	Software	Total
Cost					
At December 31, 2005	496	2,896	14	1,198	**4,604**
Additions	945	70	9	1,253	**2,277**
Disposals	(37)	(20)	(3)	(30)	**(90)**
Translation difference	45	271	-	130	**446**
At December 31, 2006	1,449	3,217	20	2,551	**7,237**
Accumulated amortization					
At December 31, 2005	(110)	(403)	(2)	(126)	**(641)**
Charge for the year	(41)	(306)	(1)	(96)	**(444)**
Translation difference	(15)	(29)	-	(3)	**(47)**
At December 31, 2006	(166)	(738)	(3)	(225)	**(1,132)**
Net Book Value					
At December 31, 2005	**386**	**2,493**	**12**	**1,072**	3,963
At December 31, 2006	**1,283**	**2,479**	**17**	**2,326**	6,105

* The Group capitalises franchise lump sums paid to T.G.I. Friday's Inc for each new restaurant opened by the Group under "T.G.I. Friday's" brand name. Franchise lump sums are amortized on a straight-line basis over the franchise contractual period of 15 years.

** The Group has exclusive rights to lease and sublease a number of restaurant premises. These rights are accounted for at cost and are amortized on a straight-line basis over the period until the right expires, generally from 4 to 10 years.

(All amounts are in thousands of US dollars, unless specified otherwise)

6. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the year ended December 31, 2005 was as follows:

	Leasehold improvements	Buildings	Restaurant equipment	Machinery and equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost									
At January 1,2005	26,070	5,433	10,261	6,486	2,879	3,310	523	10,165	65,127
Additions	545	507	198	-	20	45	-	17,679	18,994
Assets put into use	9,421	522	3,798	2,185	1,054	1,110	118	(18,208)	-
Disposals	(615)	(11)	(322)	(426)	(158)	(285)	(68)	(981)	(2,866)
Translation difference	(1,069)	(202)	(403)	(252)	(131)	(124)	(20)	(205)	(2,406)
At December 31, 2005	34,352	6,249	13,532	7,993	3,664	4,056	553	8,450	78,849
Accumulated Depreciation									
At January 1,2005	(9,950)	(2,171)	(2,704)	(1,800)	(1,394)	(744)	(197)	-	(18,960)
Charge for the year	(4,228)	(556)	(1,229)	(652)	(671)	(421)	(67)	-	(7,824)
Disposals	15	6	76	30	121	23	26	-	297
Translation difference	285	88	114	70	60	37	-	-	654
At December 31, 2005	(13,878)	(2,633)	(3,743)	(2,352)	(1,884)	(1,105)	(238)	-	(25,833)
Net Book Value									
At January 1,2005	**16,120**	**3,262**	**7,557**	**4,686**	**1,485**	**2,566**	**326**	**10,165**	**46,167**
At December 31, 2005	**20,474**	**3,616**	**9,789**	**5,641**	**1,780**	**2,951**	**315**	**8,450**	**53,016**

(All amounts are in thousands of US dollars, unless specified otherwise)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The movement in property, plant and equipment for the year ended December 31, 2006 was as follows:

	Leasehold improvements	Buildings	Restaurant equipment	Machinery and equipment	Computer equipment and electronics	Office furniture and fixtures	Vehicles	Assets under construction	Total
Cost									
At December 31, 2005	34,352	6,249	13,532	7,993	3,664	4,056	553	8,450	78,849
Additions	1,340	-	853	304	191	152	27	15,884	18,751
Assets put into use	10,590	175	2,569	1,410	1,823	937	139	(17,643)	-
Disposals	(1,851)	(748)	(1,489)	(807)	(378)	(416)	(130)	(2,060)	(7,879)
Translation difference	2,761	514	905	702	320	265	53	445	5,965
At December 31, 2006	47,192	6,190	16,370	9,602	5,620	4,994	642	5,076	95,686
Accumulated Depreciation									
At December 31, 2005	(13,878)	(2,633)	(3,743)	(2,352)	(1,884)	(1,105)	(238)	-	(25,833)
Charge for the year	(3,970)	(521)	(1,088)	(799)	(829)	(452)	(50)	-	(7,709)
Disposals	703	55	617	231	237	152	52	-	2,047
Translation difference	(807)	(209)	(16)	(197)	(128)	(92)	(3)	-	(1,452)
At December 31, 2006	(17,952)	(3,308)	(4,230)	(3,117)	(2,604)	(1,497)	(239)	-	(32,948)
Net Book Value									
At December 31, 2005	**20,474**	**3,616**	**9,789**	**5,641**	**1,780**	**2,951**	**315**	**8,450**	**53,016**
At December 31, 2006	**29,240**	**2,882**	**12,140**	**6,485**	**3,016**	**3,497**	**403**	**5,076**	**62,739**

(All amounts are in thousands of US dollars, unless specified otherwise)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As of December 31, 2006 and 2005, certain items of property, plant and equipment with a carrying value of $14,137 and $9,705, respectively, were pledged to banks as collateral against loans to the Group.

In 2006, the Group purchased computer equipment on finance lease terms. The carrying value of the leased assets as of December 31, 2006 amounted to $940.

7. INVENTORIES

Inventories consisted of the following as of December 31:

		2006		2005
Foods, beverages, liquors and tobacco, at cost	$	3,276	$	2,480
Utensils, paper goods and other items, at cost		2,286		2,218
		5,562		4,698
Allowance for slow-moving and damaged items		(1,217)		(1,453)
Total inventories	$	**4,345**	$	**3, 245**

8. PREPAYMENTS AND RECEIVABLES

Prepayments and receivables consisted of the following as of December 31:

		2006		2005
Advances to suppliers	$	6,536	$	5,169
VAT receivable		3,349		4,131
Advances to employees		291		225
Other receivables		1,971		16,982
		12,147		26,507
Allowance for doubtful accounts		(2,156)		(1,575)
Total prepayments and receivables, net	$	**9,991**	$	**24,932**

Other receivables balance as of December 31, 2005 included $15,000 due from YUM! Restaurants International S.a.r.l., for “Rostik’s” intellectual property sold in 2005. See Note 12.

Prepayments and receivables were denominated in the following currencies as of December 31:

		2006		2005
RUR	$	7,611	$	8,428
USD		436		15,306
Other currencies		1,944		1,198
Total prepayments and receivables	$	**9,991**	$	**24,932**

(All amounts are in thousands of US dollars, unless specified otherwise)

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of December 31:

		2006		2005
Cash in hand	$	2,968	$	344
Cash at bank		620		1,705
Cash in transit		2,635		1,273
Total cash and cash equivalents	**$**	**6,223**	$	**3,322**

Cash and cash equivalents were denominated in the following currencies as of December 31:

		2006		2005
RUR	$	4,556	$	2,402
USD		756		302
Euro		39		10
Other currencies		872		608
Total cash and cash equivalents	**$**	**6,223**	**$**	**3,322**

10. SHARE CAPITAL

Share Capital

The Company was established as the result of a reorganization of entities under control of the parent company, RIG Restaurants Limited. See Note 1. The Company was established as an open joint stock company in accordance with the legislation of the Russian Federation on May 24, 2004. At that time, the Company issued 10,000,000 common shares with a par value of 247 roubles per share ($8.52 USD per share at the exchange rate as of May 24, 2004).

In December 2006, the Company reduced the par value of its shares to 169.7 roubles per share, which resulted in a decrease in share capital of $26,669. This decrease of share capital was recorded as a reduction in accumulated losses. As of December 31, 2006, the Company's share capital amounted to $58,545 (translated at the historical exchange rate as of May 24, 2004).

Additional paid-in capital

During 2006 and 2005, RIG Restaurants Limited, the parent company, made cash contributions to the Company, which were recorded in the total amount of $4,385 and $10,138, respectively, as increases in additional paid-in capital.

(All amounts are in thousands of US dollars, unless specified otherwise)

10. SHARE CAPITAL (CONTINUED)

Distribution to parent company

In accordance with an agreement dated May 25, 2004 between the Company and the Parent company – RIG Restaurants Limited, the Company has provided financing to its parent in the amount of $27,659 and $6,510 in 2005 and 2006, respectively. The loans were subsequently forgiven, which represents a distribution to the shareholder.

Earnings per share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

		2006		2005
Net profit attributable to equity holders of the parent entity	$	779	$	599
Weighted average number of ordinary shares outstanding		10,000,000		10,000,000
Profit per share attributable to equity holders of the parent entity, basic and diluted (US dollars)	$	0.08	$	0.06

The Company has no potentially dilutive ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

11. LIABILITIES UNDER PARTNERSHIP AGREEMENTS

The movements in liabilities under partnership agreements were as follows during the years ended December 31:

		2006		2005
At January 1	$	11,495	$	8,145
Increase in amounts due under partnership agreements		4,743		1,550
Payments under partnership agreements		(6,739)		(5,029)
Capital contributed by partners		7,069		6,828
Translation difference		1,187		-
At December 31	$	**17,755**	$	**11,495**

Analysed as to:

		2006		2005
Current portion	$	3,158	$	2,150
Long-term portion		14,597		9,345
	$	**17,755**	$	**11,495**

(All amounts are in thousands of US dollars, unless specified otherwise)

12. RELATED PARTIES DISCLOSURES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Short term loans receivable from/payable to related parties consisted of the following as of December 31:

Related Parties	**Nature of relationship**	**Short-term loans receivables from related parties**		**Short-term loans payables to related parties**	
		2006	**2005**	**2006**	**2005**
Rostik Investment Group Inc. (1,2)	Entity under common control (EUCC)	$ -	$ 1,466	$ 690	$ 690
RIG Restaurants Limited (3)	Parent company	-	-	912	1,078
Amazonit LLC (4)	EUCC	891	-	-	-
Other EUCC (5)		944	135	496	1,150
Total short-term loans receivable from / payable to related parties		$ **1,835**	**$ 1,601**	**$ 2,098**	**$ 2,918**

(1) In December 2005, the Group provided Rostik Investment Group Inc. with a loan in the amount of $1,466, bearing interest of 11% per annum, which was repaid in April 2006.

(2) In January 1999, Rostik Investment Group Inc. provided certain Group companies with a loan in the amount of $690, bearing interest of 11% per annum and due in December 2006. In 2006, the loan agreement was renewed with the same interest rate and due date of July 1, 2007.

(3) In the period from July 2001 to June 2003, RIG Restaurants Limited provided to certain Group companies interest free loans repayable between July and December 2006. The aggregated outstanding balance as of December 31, 2005 amounted to $1,078. In 2006, the loan agreement for the outstanding loan balance of $912 was renewed with the same interest rate and is due on December 31, 2007.

(4) In December 2006, the Group provided Amazonit LLC with an interest free loan of $891 due in March 2007.

(5) The interest rate for the loans given to/received from the other EUCC varies from nil to 12% per annum.

(All amounts are in thousands of US dollars, unless specified otherwise)

12. RELATED PARTIES DISCLOSURES (CONTINUED)

Long-term loans receivable from/payable to related parties consisted of the following as of December 31:

Related Parties	**Long-term loans receivables from related parties**		**Long-term loans payables to related parties**	
	$ 2006	**$ 2005**	**$ 2006**	**$ 2005**
Other EUCC (5)	240	-	1,150	415
Total long term loans receivable from / payable to related parties	$ **240**	$ **-**	$ **1,150**	$ **415**

Accounts receivable from / payable to related parties consisted of the following as of December 31:

Related Parties	**Nature of relationship**	**Receivables from related parties**		**Payables to related parties**	
		2006	**2005**	**2006**	**2005**
Rostik Investment Group Inc.(6)	EUCC	$ -	$ -	$ 455	$ 12,000
RIG Restaurant Limited (Cyprus) (7)	Parent company	295	774	2,189	2,389
PBO Service LLC (8)	EUCC	43	525	183	881
Other EUCC		1,375	686	2,349	1,003
Total receivable from / payable to related parties		$ **1,713**	$ **1,985**	$ **5,176**	$ **16,273**

(6) In 2005, the Group sold the “Rostik’s” intellectual property world wide to YUM! Restaurants International S.a.r.l., a third party, for consideration of $15,000.

The consideration of $15,000 and the related costs, including the cost related to compensation to Rostik Investment Group Inc., which serves as a representative of the intellectual property owner of $12,000 and third party costs of $2,579, were included in the consolidated income statement for the year ended December 31, 2005 (see Note 21).

The outstanding payable balance as of December, 31 2006, in the amount of $455, comprises rent payable and interest payable.

(7) The outstanding receivable balance results from operating expenses paid by the Group on behalf of RIG Restaurants Limited and from management services provided to RIG Restaurants Limited. The payables mainly result from management services which were provided to the Group.

(8) The outstanding receivable balance relates to royalties for using the “Rostik’s” trademark prior to its transfer to a third party - YUM! Restaurants International S.a.r.l. The outstanding payable balance mainly relates to the purchases of non-current assets.

(All amounts are in thousands of US dollars, unless specified otherwise)

12. RELATED PARTIES DISCLOSURES (CONTINUED)

Transactions with related parties were as follows for the year ended December 31, 2005:

Related Parties	Nature of relationship	Sales and other income $ 2005	Purchases $ 2005	Interest income $ 2005	Interest expense $ 2005
Amazonit LLC (9)	EUCC	-	3,374	-	-
RosCorp LLC (10)	EUCC	-	3,370	-	-
PBO Service LLC (11)	EUCC	4,931	373	759	151
Rostik Investment Group Inc. (6)	EUCC	-	12,000	9	180
Other EUCC		40	953	227	152
Total:		$ **4,971**	$ **20,070**	$ **995**	$ **483**

Transactions with related parties were as follows for the year ended December 31, 2006:

Related Parties	Nature of relationship	Sales and other income 2006	Purchases 2006	Interest income 2006	Interest expense 2006
Amazonit LLC (9)	EUCC	$ -	$ 2,831	$ 82	$ -
RosCorp LLC (10)	EUCC	-	3,453	-	-
PBO Service LLC (11)	EUCC	496	1,380	-	-
Rostik Investment Group Inc. (6)	EUCC	-	455	80	71
Other EUCC		1,311	2,804	457	159
Total:		$ **1,807**	$ **10,923**	**$** **619**	$ **230**

(9) During, 2006 and 2005, the Group received information, management and outsourcing services in the amount of $2,831and $3,374, respectively.

(10) During 2006 and 2005, the Group purchased rent, transport and utilities services in the amount of $3,453 and $3,370, respectively.

(11) In 2005, the Group received royalty fees and management fees. In 2006, the Group purchased several types of goods and services, including property and equipment.

RIG Restaurants Limited, the Parent company, and other EUCC provided several guarantees to secure some of the Group's debts. See Notes 13 and 17.

Compensation to Key Management Personnel

Key management personnel totalled 13 persons as at December 31, 2006 and 2005. Total compensation to key management personnel, including social taxes, was recorded in general and administrative expenses and consisted of the following:

	2006	2005
Salary	$ 1,913	$ 1,884
Performance bonuses	229	321
	$ 2,142	**$ 2,205**

(All amounts are in thousands of US dollars, unless specified otherwise)

13. LONG-TERM DEBT

Long-term debt, at amortized cost, consisted of the following as of December 31:

	2006	2005
Bonds issued, net of issuance cost	$ 32,266	$ 39,383
International Moscow Bank	-	4,800
Ukreximbank	1,205	615
Sberbank	3,798	-
Kazkommertsbank	1,083	-
Other long-term debts	401	362
	38,753	**45,160**
Less: current portion	(69)	(236)
Total long-term debt	**$ 38,684**	**$ 44,924**

The liabilities are contractually repayable after the balance sheet date as follows:

	2006	2005
2007	$ -	$ 4,857
2008	37,949	40,038
2009	374	37
2010	276	38
2011	121	-
Less: discount adjustment	(36)	(46)
Total long-term debt	**$ 38,684**	**$ 44,924**

Long-term loans were denominated in the following currencies as of December 31:

	2006	2005
RUR	$ 36,064	$ 39,383
USD	2,221	5,533
Other currencies	399	8
Total long term loans	**$ 38,684**	**$ 44,924**

Bonds

In July 2003, Rosinter Restaurants LLC, a Group company, registered with the Federal Securities Market Commission in Russia the issue of 400,000 non-convertible bonds with a face value of 1,000 roubles each in an aggregated principal amount of 400 million Russian roubles. On July 7, 2004, the Group issued 330,371 of those bonds in an aggregated principal amount of 330 million Russian roubles. The bonds have 16 coupons payable quarterly. Interest rates for each coupon vary from 11% to 12% per annum. During 2005, the Group redeemed part of this issue. The outstanding balance as of December 31, 2005 and 2006 is 144,231 bonds in the amount of $5,010 (at the exchange rate as of December 31, 2005) and $5,477 (at the exchange rate as of December 31, 2006), respectively. The bonds are due in July 2008.

13. LONG-TERM DEBT (CONTINUED)

Bonds (continued)

In December 2005, Rosinter Restaurants LLC, a Group company, issued an additional 1,000,000 non-convertible bonds with a face value of 1,000 roubles each in an aggregated principal amount of 1,000 million Russian roubles ($34,744 at the exchange rate as of December 31, 2005). The bonds have 10 coupons payable semiannually with variable interest rates declared by the Group. The interest rate for the two coupon periods in 2006 was 11%. The interest rate for the three coupon periods ending May 2008 is 10.75%. During 2006, bondholders exercised their early redemption option, which resulted in a decrease in bonds of $10,600. The outstanding balance as of December 31, 2006 is 711,495 bonds in the amount of $27,021 (at the exchange rate as of December 31, 2006). The bonds maturity date is on November 26, 2010. The bondholders have an early redemption option exercisable in May 2008.

International Moscow Bank

In May 2004, the Group obtained a loan in the amount of $4,800 bearing interest of LIBOR+7% per annum and maturing on May 12, 2007. In 2005, the average interest rate was 10.33%. The loan was secured against property, plant and equipment with a net book value of $3,196. In 2006, this loan was reclassified to short-term loans (see Note 17). The loan agreement contains covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity.

Ukreximbank

During 2005, the Group obtained an unsecured credit facility in the amount of $1,388 bearing interest of 12% per annum and maturing in 2008. The unutilized balance of the credit facility amounted to $183 and $773 as of December 31, 2006 and 2005, respectively.

Sberbank

In September 2006, the Group obtained a loan in the amount of $3,798 bearing interest of 9.2% per annum and maturing in March 2008. The loan is secured by a pledge of restaurant equipment with a net book value of $1,657.

Kazkommertsbank

During 2006, the Group obtained credit facilities in the total amount of $1,891 bearing interest of 12% per annum and maturing during 2010 and 2011. The credit facilities were secured by a pledge of restaurant equipment of Rosinter LLC Almaty, a subsidiary of the Group, with a net book value of $553. The unutilized balance of the credit facility amounted to $808 as of December 31, 2006.

(All amounts are in thousands of US dollars, unless specified otherwise)

14. FINANCE LEASE LIABILITIES

During 2006, the Group entered into a number of computer equipment lease agreements.The computer equipment under finance leases amounted to $940 as of December 31, 2006 (2005: nil). The leased assets are included in property, plant and equipment in the consolidated balance sheets (Note 6).

Future minimum lease payments were as follows at December 31, 2006:

		Principal		Interest		Total
2007	$	362	$	60	$	422
2008		201		99		300
2009		93		94		187
Less: current portion		(362)		(60)		(422)
	$	**294**	**$**	**193**	**$**	**487**

In the year ended December 31, 2006, the average interest rate was 9.28%.

15. INCOME TAX

The Group's provision for income tax for the years ended December 31, 2006 and 2005 is as follows:

		2006		2005
Current tax	$	(2,372)	$	(839)
Deferred tax		2,024		959
Total income tax (expense) /benefit	**$**	(348)	$	120

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

The tax effect of the temporary differences that give rise to the deferred tax assets and liabilities were as follows as of December 31:

	1 Jan-05	Differences recognition and reversal	Transla-tion difference	31-Dec-05	Differences recognition and reversal	Transla-tion difference	31-Dec-06
Tax effect of deductible temporary differences							
Trade and other payables	882	859	(32)	1,709	852	2	2,563
Allowance for receivables and inventory obsolescence	292	529	(20)	801	792	-	1,593
Other	330	-	1	331	295	126	752
Total deferred tax asset:	**$ 1,504**	**$ 1,388**	**$ (51)**	**$ 2,841**	**$ 1,939**	**$ 128**	**$ 4,908**
Tax effect of taxable temporary differences							
Property, plant and equipment	(2,678)	102	(4)	(2,580)	-	(14)	(2,594)
Trade and other receivables	-	(19)	-	(19)	(112)	(2)	(133)
Other	(223)	(512)	20	(715)	197	25	(493)
Total deferred tax (liability):	**$ (2,901)**	**$ (429)**	**$ 16**	**$ (3,314)**	**$ 85**	**$ 9**	**$ (3,220)**
Net deferred tax asset / (liability)	**$ (1,397)**	**$ 959**	**$ (36)**	**$ (473)**	**$ 2,024**	**$ 137**	**$ 1,688**

(All amounts are in thousands of US dollars, unless specified otherwise)

15. INCOME TAX (CONTINUED)

The recognition and reversals of temporary differences, as presented in the table above, primarily relate to the depreciation of property, plant and equipment in excess of the depreciation for tax purposes, impairment of receivables, and provisions to write inventory down to net realizable value.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised aggregate to $15,824 and $48,912 for the years ended December 31, 2006 and 2005 respectively.

The statutory tax rate effective in the Russian Federation, the location of the majority of the Group's entities, was 24% in 2005 and 2006. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 24% to the actual (expense)/benefit recorded in the Group's income statement:

		2006		2005
Profit before income tax	$	1,127	$	479
At Russian statutory income tax rate of 24%		(270)		(115)
Effect of differences in tax rates in countries other than the Russian Federation		1,036		1,440
Effect of non-deductible expenses and other non-temporary differences		(1,114)		(1,205)
Income tax (expense)/benefit reported in the consolidated income statement	**$**	**(348)**	**$**	**120**

16. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following as of December 31:

		2006		2005
Trade creditors	$	7,821	$	7,480
Accrued salaries		5,216		4,640
Output VAT and other taxes payable		4,276		2,123
Interest payable to banks		294		639
Advances received		1,472		1,388
Other liabilities		4,075		4,930
Total trade and other payables	**$**	**23,154**	**$**	**21,200**

Trade and other payables were denominated in the following currencies as of December 31:

		2006		2005
RUR	$	18,558	$	16,461
USD		1,017		1,722
Other currencies		3,579		3,017
Total trade and other payables	**$**	**23,154**	**$**	**21,200**

(All amounts are in thousands of US dollars, unless specified otherwise)

17. SHORT-TERM DEBT

Short-term debt consisted of the following as of December 31:

	2006	2005
Sberbank	$ 6,076	$ 2,537
Bank Societe` General Vostok (BSGV)	5,000	4,000
Citibank	-	1,494
Alfa Bank	3,418	4,364
UralSib	8,000	5,000
Kazkommerzbank	-	918
International Moscow Bank *(Note 13)*	4,800	-
Amsterdam TB	4,000	-
Other	411	27
Current portion of long-term loans *(Note 13)*	69	236
Total short-term debt	**$ 31,774**	**$ 18,576**

Short-term debt was denominated in the following currencies as of December 31:

	2006	2005
RUR	$ 9,821	$ 5,859
USD	21,800	11,736
Other currencies	153	981
Total short term loans	**$ 31,774**	**$ 18,576**

Sberbank

In December 2004, the Group entered into a loan agreement amounting to $2,500 bearing interest of 10.5% per annum, which matured in June 2006. The loan was secured by a pledge of the Group's restaurant equipment with a net book value of $2,692.

In December 2005, the Group entered into a revolving credit facility in the total amount of 155 million roubles ($5,385 at the exchange rate as of December 31, 2005), bearing interest of 12% per annum and maturing in December 2006. The revolving credit facility was secured by a pledge of the Group's restaurant equipment with a net book value of $5,612. The unutilized balance of the credit facility amounted to $5,348 as of December 31, 2005.

In July 2006, the Group renewed the revolving credit facility for the total amount of 190 million roubles ($7,215 at the exchange rate as of December 31, 2006), bearing interest of 9.5% per annum and maturing in tranches during January to April 2007. The credit facility was secured by a pledge of restaurant and office equipment and furniture with a net book value of $3,212. The unutilized balance of the credit facility amounted to $1,139 as of December 31, 2006.

Bank Societe General Vostok (BSGV)

In November 2005, the Group entered into an unsecured revolving credit facility agreement in the amount of $5,000, bearing interest of LIBOR+6% per annum, which matured in February 2006. In November 2006, the Group entered into a new revolving credit facility agreement in the amount of $5,000 bearing interest of LIBOR+5% per annum and maturing in March 2007 with an implicit extension to November 2007. The unutilized balance of the credit facilities amounted to nil and $1,000 as of December 31, 2006 and 2005, respectively.

17. SHORT-TERM DEBT (CONTINUED)

Citibank

In April 2005, the Group entered into a number of credit facility agreements aggregating 43 million roubles bearing interest of 9.25% per annum, which matured in January 2006. These credit facilities were secured by a guarantee of RIG Restaurants Limited, the parent company, as of December 31, 2005.

Alfa Bank

In September 2005, the Group entered into two credit facility agreements. The first credit facility amounting to 85.6 million roubles ($2,975 at the exchange rate as of December 31, 2005), bore interest of 14% per annum and matured in March 2006. This credit facility was guaranteed by RIG Restaurants Limited, the parent company. The second credit facility amounted to 128.6 million roubles ($4,467 at the exchange rate as of December 31, 2005), bore interest of 14.75% per annum and matured in November 2006. This credit facility was guaranteed by RIG Restaurants Limited and was secured by a pledge of the "Planet Sushi" trademark. The unutilized balance of the credit facilities amounted to $3,078 as of December 31, 2005.

In December 2006, the Group entered into another restricted non-revolving credit facility agreement, amounting to 300 million roubles ($11,393 at the exchange rate as of December 31, 2006) for repayment of bonds relating to the early put option, bearing interest of 11.5% per annum and maturing in June 2007. This credit facility is secured by a guarantee of RIG Restaurants Limited, the parent company.

UralSib

In August 2005, the Group entered into a credit facility agreement amounting to $5,000 bearing interest of 8.8% per annum and maturing in February 2006. The loan was secured by a pledge of part of a building provided by VAKO LLC, a related party, with a net book value of $5,025 and by a guarantee of RIG Restaurants Limited, the parent company, and OJSC Institute Stekla, an entity under common control, as of December 31, 2005. The unutilized balance of the credit facility amounted to nil as of December 31, 2005.

In December 2006, the Group entered into a new credit facility agreement amounting to $8,000 bearing interest of 10% per annum and maturing in December 2007. The loan is secured by a pledge of restaurant equipment with a net book value of $4,815. The unutilized balance of the credit facility amounted to nil as of December 31, 2006.

Kazkommerzbank

During 2005, the Group entered into a number of unsecured credit facility agreements in the total amount of 123 million tenge ($918 at the exchange rate as of December 31, 2005) bearing interest of 12%. The debt was repaid in 2006. The unutilized balances of the credit facilities amounted to nil as of December 31, 2005.

Amsterdam TB

In August 2006, the Group entered into a loan agreement amounting to $4,000 bearing interest of Libor + 3.7% per annum and maturing in November 2007. The loan is guaranteed by RIG Restaurants Limited, the parent company, as of December 31, 2006. The loan agreement contains covenants which limit the indebtedness of Rosinter Restaurants LLC, a Group entity.

(All amounts are in thousands of US dollars, unless specified otherwise)

18. REVENUE

Revenue for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Revenue from restaurants	$ 202,330	$ 150,757
Sublease services and other services	3,686	3,895
Franchise revenue	2,913	1,246
Royalties *(Note 12)*	160	3,701
Other	9,537	6,113
Total	**$ 218,626**	**$ 165,712**

Royalties represent payments made by PBO Service LLC, an entity under common control, for the use of the "Rostik's" trademark. Royalty payments significantly decreased in 2006 due to the sale of the "Rostik's" Intellectual Property to YUM! Restaurants International S.a.r.l.

19. COST OF SALES

The following expenses were included in cost of sales for the years ended December 31:

	2006	2005
Food and beverages	$ 58,593	$ 44,773
Payroll and related taxes	39,074	30,373
Rent	23,992	16,095
Loyalty programs discounts	5,659	5,132
Restaurant equipment depreciation	6,222	6,826
Utilities	4,361	3,408
Total	**$ 137,901**	**$ 106,607**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following expenses were included in selling, general and administrative expenses for the years ended December 31:

	2006	2005
Payroll and related taxes	$ 14,546	$ 10,436
Advertising	6,060	3,408
Start-up expenses for new restaurants	5,744	7,675
Rent	5,009	4,937
Financial and legal services	4,883	4,803
Materials	4,608	3,841
Increase in the allowance for doubtful accounts and other receivables write-off	3,574	1,274
Other services	3,298	2,923
Maintenance and repair services	2,823	1,456
Depreciation and amortization	1,931	1,448
Transportation services	1,449	1,071
Utilities	1,229	1,301
Bank services	1,202	800
Laundry and sanitary control	781	269
Franchising fee	708	953
Other expenses	4,889	2,644
Total	**$ 62,734**	**$ 49,239**

(All amounts are in thousands of US dollars, unless specified otherwise)

21. OTHER GAINS / LOSSES, NET

Gains and losses for the years ended December 31, 2006 and 2005 consisted of the following:

	2006	2005
Loss on disposal of non-current assets	2,371	915
Other gains and losses	3,718	(324)
Total	**$ 6,089**	**$ 591**

Included in the loss on disposal of non-current assets is the gain on the sale of the Rostik trademark amounting to consideration of $15,000 less costs of $12,000 (see Note 12) and other related expenses of $2,579.

Other losses amounting to $3,718 for the year ended December 31, 2006 mainly result from the closure of certain restaurants and the cancellation of lease agreements.

22. FINANCIAL (INCOME)/EXPENSES

The following (income)/expenses were included in financial (income)/expenses for the years ended December 31:

	2006	2005
Interest income	$ (705)	$ (1,086)
Total financial income:	**$ (705)**	**$ (1,086)**

	2006	2005
Interest expense	$ 7,409	$ 7,688
Increase in amounts due under partnership agreements	4,743	1,550
Total financial expenses:	**$ 12,152**	**$ 9,238**

23. COMMITMNENT AND CONTINGENCIES

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all business matters will not have a material impact on the Group's financial position or operating results.

Russian Federation Tax and Regulatory Environment

The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. Russian tax and currency 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, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, 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. However, the tax regime in Russia following the recent cases has become even less predictable.

(All amounts are in thousands of US dollars, unless specified otherwise)

23. COMMITMNENT AND CONTINGENCIES (CONTINUED)

Russian Federation Tax and Regulatory Environment (continued)

The Group utilized certain tax planning strategies providing tax savings to the Group that reduced its costs of operations in 2005 and 2006 (see Note 4 - Estimation Uncertainty). Management have substantially eliminated these tax planning strategies with effect from December 31, 2006. While management believes that its interpretation of the relevant legislation is appropriate, these tax planning strategies may be challenged by the Russian tax authorities. Thus, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of December 31, 2006. The amount of possible liabilities that could be incurred in the event that the tax authorities challenge the Group's position on certain tax matters and certain tax practices at December 31, 2006 could include the amount of the aforementioned tax savings, and fines, penalties and interest assessed, if any. As of December 31, 2006 and 2005, management believes that its interpretation of the relevant legislation is appropriate and that it is likely that the Group's tax position will be sustained.

Operating lease commitments

The Group has entered into a number of commercial lease agreements for its restaurants' premises. The nominal amount of minimum rentals payable under the non-cancellable leases as at December 31 were as follows:

	2006	2005
Within one year	$ 19,920	$ 17,993
After one year but not more than five years	63,120	54,996
More than five years	41,966	38,559
Total minimum rental payables:	**$ 125,006**	**$ 111,548**

24. FINANCIAL RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations include those related to market movements in interest rates, foreign exchange rates and credit risk. The Group's risk management policies in relation to these risks are as follows.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The borrowings are usually exposed to interest rate risk through market value fluctuations of interest-bearing long-term credit facilities. The majority of interest rates on long-term credit facilities of the Group are fixed and these are disclosed in Note 13.

The Group has no significant exposure to interest rate risk since the majority of its loans and bonds have a clearly defined stable interest rate, other than short-term credit facilities which expose the Group to the risk of refinancing at different interest rates. The Group does not hedge its interest rate risk.

Currency Risk

Currency risk is that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has no significant exposure to foreign currencies as the major part of the Group's operations and borrowings are made in Russian roubles.

Credit Risk

The Group is not significantly exposed to credit risk as the majority of its sales are on a cash basis. The Group's credit risk is primarily attributed to its other receivables. The carrying amount of other receivables, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Management believes that there is no significant risk of loss to the Group beyond the allowance already recorded.

Fair value of financial instruments

Fair values of cash and cash equivalents, receivables, trade and other payables and short –term debts approximate their carrying amounts due to their short maturity. The fair values of the long-term debts have been determined by using the fair values of comparable debts, which are based on cash flows discounted using market interest rates. The carrying amounts of the long-term debts amount to $38,648, while their fair values amount to $38,684 as of December 31, 2006. These comparisons support the Company's assessment that the fair values of long-term debts approximate the carrying values.

REGISTERED OFFICE OF THE COMPANY

OJSC Rosinter Restaurants Holding
7 bld.1 Dushinskaya st.,
Moscow 111024
Russia

SELLING SHAREHOLDER

RIG Restaurants Limited
Capital Center, 9th Floor
204 Arch. Makariou III Avenue
Nicosia 1065
Cyprus

LEGAL ADVISERS TO THE COMPANY AND THE SELLING SHAREHOLDER

As to English and U.S. Law

Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

As to Russian Law

Cleary Gottlieb Steen & Hamilton LLP
CGS&H Limited Liability Company
Paveletskaya Square 2/3
Moscow 115054
Russia

As to certain matters of Russian Law

Liniya Prava
Gorky Park Tower
15a Leninsky Prospect
Moscow 119071
Russia

LEAD MANAGER AND SOLE BOOKRUNNER

Renaissance Securities (Cyprus) Limited
Capital Center, 9th Floor
2-4 Archbishop Makarios III Avenue
Nicosia 1505
Cyprus

LEGAL ADVISER TO THE LEAD MANAGER

As to English, U.S. and Russian Law

Clifford Chance CIS Limited
6 Gasheka Street
Moscow 125047
Russia

INDEPENDENT AUDITORS OF THE COMPANY

Ernst & Young LLC
77/1 Sadovnicheskaya Naberezhnaya
Moscow 115035
Russia