2009 Financial Statements

X5 Retail Group

International Financial Reporting Standards
Consolidated Financial Statements,

Dutch GAAP Company's Financial Statements and

Independent Auditor's Report

31 December 2009

Contents

DIRECTORS' RESPONSIBILITY STATEMENT

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of X5 Retail Group N.V. and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2009, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards as adopted by the European Union.

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2009 were approved on 8 April 2010 by:

Lev Khasis
Chief Executive Officer

Evgeny Kornilov
Chief Financial Officer

X5 Retail Group
Consolidated Statement of Financial Position at 31 December 2009

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

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	10	2,995,329	3,039,044
Investment property	11	133,425	125,693
Goodwill	12	767,523	554,559
Intangible assets	13	496,111	499,324
Prepaid leases	10	84,805	80,677
Investment in associates	8	5,609	10,054
Other non-current assets		1,304	2,443
Deferred tax assets	29	151,786	94,558
		4,635,892	4,406,352
Current assets			
Inventories of goods for resale	14	612,722	476,475
Derivative financial assets	18	-	765
Loans originated		2,848	350
Current portion of non-current prepaid lease	10	13,705	10,154
Trade and other accounts receivable	16	309,571	176,313
Current income tax receivable		18,663	60,866
VAT and other taxes recoverable	17	174,762	239,418
Cash and cash equivalents	9	411,681	276,837
		1,543,952	1,241,178
Total assets		**6,179,844**	**5,647,530**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	93,712	93,712
Share premium	21	2,049,144	2,049,144
Cumulative translation reserve		(559,576)	(520,184)
Retained earnings		199,292	33,941
Hedging reserve	18	(10,108)	(18,180)
Total equity		**1,772,464**	**1,638,433**
Non-current liabilities			
Long-term borrowings	20	287,378	1,480,968
Long-term finance lease payable		4,586	1,843
Deferred tax liabilities	29	207,689	219,161
Long-term deferred revenue		1,839	3,482
Share-based payments liability	28	25,986	30,665
		527,478	1,736,119
Current liabilities			
Trade accounts payable		1,556,325	1,175,279
Short-term borrowings	20	1,656,622	578,433
Share-based payments liability	28	59,559	7,256
Derivative financial liabilities	18	10,108	18,180
Short-term finance lease payables		1,950	2,197
Interest accrued		8,863	8,384
Short-term deferred revenue		18,979	4,872
Current income tax payable		33,790	20,887
Provisions and other liabilities	19	533,706	457,490
		3,879,902	2,272,978
Total liabilities		**4,407,380**	**4,009,097**
Total equity and liabilities		**6,179,844**	**5,647,530**

X5 Retail Group
Consolidated Income Statement for the year ended 31 December 2009

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

	Note	31 December 2009	31 December 2008
Revenue	23	8,717,399	8,353,250
Cost of sales	24	(6,609,522)	(6,206,324)
Gross profit		**2,107,877**	**2,146,926**
Selling, general and administrative expenses	24	(1,740,604)	(1,698,524)
Lease/sublease and other income	25	100,496	94,776
Operating profit before impairment		**467,769**	**543,178**
Impairment of Goodwill	12, 24	-	(2,257,020)
Operating profit/(loss) after impairment		**467,769**	**(1,713,842)**
Finance costs	26	(157,964)	(159,016)
Finance income	26	3,817	10,511
Share of loss of associates	8	(3,964)	(647)
Net foreign exchange loss		(45,692)	(267,187)
Profit/(Loss) before tax		**263,966**	**(2,130,181)**
Income tax expense	29	(98,615)	(8,106)
Profit/(Loss) for the year		**165,351**	**(2,138,287)**
Profit for the year attributable to:			
Equity holders of the parent		165,351	(2,138,287)
Basic earnings/(losses) per share for profit/(losses) attributable to the equity holders of the parent (expressed in USD per share)	22	2.44	(33.45)
Diluted earnings/(losses) per share for profit/(losses) attributable to the equity holders of the parent (expressed in USD per share)		2.43	(33.45)

X5 Retail Group
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

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

	31 December 2009	31 December 2008
Profit/(Loss) for the year	**165,351**	**(2,138,287)**
Other comprehensive income/(loss)		
Exchange differences on translation from functional to presentation currency	(39,392)	(814,353)
Changes in fair value of financial instruments	8,072	(18,180)
Other comprehensive loss	**(31,320)**	**(832,533)**
Total comprehensive income/(loss) for the year	**134,031**	**(2,970,820)**
Total comprehensive income/(loss) for the year attributable to:		
Equity holders of the parent	134,031	(2,970,820)

X5 Retail Group
Consolidated Statement of Cash Flows for the year ended 31 December 2009

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

	Note	31 December 2009	31 December 2008
Profit/(Loss) before tax		**263,966**	**(2,130,181)**
Adjustments for:			
Depreciation, amortisation and impairment	24	268,243	225,238
Goodwill impairment	12	-	2,257,020
Loss on disposal of property, plant and equipment		3,113	835
Loss on disposal of intangible assets		-	245
Finance costs, net	26	154,147	148,505
Impairment of trade and other accounts receivable	24	12,955	7,350
Share-based options expense/(income)	28	59,316	(7,647)
Amortisation of deferred expenses		10,226	5,087
Net foreign exchange loss		45,692	267,187
Loss from associate	8	3,964	647
Other non-cash items		13,877	-
Net cash from operating activities before changes in working capital		**835,499**	**774,286**
(Increase)/Decrease in trade and other accounts receivable		(91,463)	39,043
(Increase) in inventories of goods for resale		(128,095)	(164,858)
Increase in trade payable		343,752	239,744
Increase in other accounts payable		41,844	130,007
Net cash generated from operations		**1,001,537**	**1,018,222**
Interest paid		(156,914)	(150,493)
Interest received		4,449	12,078
Income tax paid		(115,390)	(250,460)
Net cash from operating activities		**733,682**	**629,347**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(175,317)	(883,020)
Purchase of investment property	11	(8,574)	(3,034)
Non-current prepaid lease		(4,555)	(57,384)
Acquisition of subsidiaries and non-controlling interest	7	(229,367)	(711,072)
Proceeds from sale of property, plant and equipment		3,290	6,826
Purchase of intangible assets	13	(19,321)	(8,361)
Net cash used in investing activities		**(433,844)**	**(1,656,045)**
Cash flows from financing activities			
Proceeds from short-term loans		259,934	2,061,428
Repayment of short-term loans		(656,357)	(1,999,787)
Proceeds from long-term loans		248,733	-
Repayment of long-term loans		(40,074)	-
Proceeds from issue of share capital	21	-	999,454
Proceeds from sale of treasury shares	21	-	144,217
Acquisition of treasury shares	21	-	(9,102)
Acquisition of derivative financial assets		(2,512)	-
Principal payments on finance lease obligations		(4,018)	(2,017)
Net cash (used in)/generated from financing activities		**(194,294)**	**1,194,193**
Effect of exchange rate changes on cash and cash equivalents		29,300	(70,154)
Net increase in cash and cash equivalents		**134,844**	**97,341**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		276,837	179,496
Net increase in cash and cash equivalents		134,844	97,341
Cash and cash equivalents at the end of the year		**411,681**	**276,837**

X5 Retail Group
Consolidated Statement of Changes In Equity for the year ended 31 December 2009

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

	Note	Attributable to the shareholders of the Company							Minority interest	Total
		Number of shares	Share capital	Share premium	Hedging reserve	Cumulative translation reserve	Accumulated profit / (deficit)	Total shareholders' equity		
Balance as at 1 January 2008		**53,177,760**	**70,883**	**2,896,355**	**-**	**294,169**	**(17,960)**	**3,243,447**	**220**	**3,243,667**
Other comprehensive loss for the year		-	-	-	(18,180)	(814,353)	-	(832,533)	-	(832,533)
Loss for the year		-	-	-	-	-	(2,138,287)	(2,138,287)	-	(2,138,287)
Total comprehensive loss for the year		**-**	**-**	**-**	**(18,180)**	**(814,353)**	**(2,138,287)**	**(2,970,820)**	**-**	**(2,970,820)**
Issue of shares	21	12,026,675	18,979	980,475	-	-	-	999,454	-	999,454
Sale of treasury shares	21	949,778	1,268	142,949	-	-	-	144,217	-	144,217
Acquisition of Formata	21	1,746,505	2,714	228,523	-	-	-	231,237	-	231,237
Acquisition of treasury shares	21	(86,771)	(132)	(8,970)	-	-	-	(9,102)	-	(9,102)
Acquisition of Minority interest in Chelyabinsk		-	-	-	-	-	-	-	(220)	(220)
Transfer of Goodwill impairment to Share premium		-	-	(2,190,188)	-	-	2,190,188	-	-	-
Balance as at 31 December 2008		**67,813,947**	**93,712**	**2,049,144**	**(18,180)**	**(520,184)**	**33,941**	**1,638,433**	**-**	**1,638,433**
Other comprehensive income/(loss) for the year		-	-	-	8,072	(39,392)	-	(31,320)	-	(31,320)
Profit for the year		-	-	-	-	-	165,351	165,351	-	165,351
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**8,072**	**(39,392)**	**165,351**	**134,031**	**-**	**134,031**
Balance as at 31 December 2009		**67,813,947**	**93,712**	**2,049,144**	**(10,108)**	**(559,576)**	**199,292**	**1,772,464**	**-**	**1,772,464**

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

1 PRINCIPAL ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the “Company”) and its subsidiaries, as set out in Note 6 (the “Group”).

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

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2009 the Group operated a retail chain of 1,372 soft-discount, supermarket and hypermarket stores under the brand names “Pyaterochka”, “Perekrestok” and “Karusel” in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, Ukraine (31 December 2008: 1,101 soft-discount, supermarket and hypermarket stores under the brand names “Pyaterochka”, “Perekrestok” and “Karusel”), with the following number of stores:

	31 December 2009	31 December 2008
Supermarket		
Central	152	114
North-West	33	20
Sredne-Volzhsky	22	14
Privolzhsky	15	7
South	14	13
Volgo-Vyatsky	19	20
Central-Chernozem	9	13
Ukraine	6	6
Ural	5	-
	275	**207**
Discounter		
Central	433	368
North-West	306	276
Ural	152	139
Volgo-Vyatsky	39	29
South	32	4
Sredne-Volzhsky	28	13
Privolzhsky	25	-
Central-Chernozem	24	19
	1,039	**848**

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Hypermarket		
North-West	17	15
Central	13	10
Privolzhsky	6	5
Volgo-Vyatsky	6	5
Sredne-Volzhsky	5	2
South	4	4
Central-Chernozem	4	3
Ural	3	2
	58	**46**
Total stores	**1,372**	**1,101**

In addition as at 31 December 2009, the Group's franchisees operated 620 stores (31 December 2008: 607 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As at 31 December 2009 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited, Alfa Group Consortium companies, owning 25.54% and 21.62% of total issued shares, respectively. As at 31 December 2009 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share, except for 1,746,505 shares issued within the Karusel acquisition (Note 7). As at 31 December 2009 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), an Alfa Group Consortium company registered at Suite 2, 4 Irish Place, Gibraltar, owning directly 0.7% of total issued shares. CTF is under the common control of Mr Fridman, Mr Khan and Mr Kousmichoff (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These consolidated financial statements for the year ended 31 December 2009 have been prepared in accordance with, and comply with International Financial Reporting Standards as adopted by the European Union, and with Part 9 Book 2 of The Netherlands Civil Code. In accordance with article 402 Book 2 of The Netherlands Civil Code the income statement in the Company Financial Statements is presented in abbreviated form.

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the European Union through the endorsement procedure established by the European Commission.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Certain reclassifications have been made to prior year balances in the consolidated statement of financial position and notes to consolidated financial statements to reflect the changes in provisional value of subsidiaries acquired in prior reporting periods (Note 2.29).

2.2 Accounting for the effects of inflation

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

2.3 Consolidated financial statements

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

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

The Group accounts for options to acquire subsidiaries in business combinations at cost.

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

The excess of the cost of acquisition over the fair value of the Group's share in net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost (”negative goodwill”) is recognized immediately in the consolidated income statement.

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

2.4 Non-controlling interest

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

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

2.5 Foreign currency translation and transactions

(a) Functional and presentation currency

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

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rates at the date of that statement of financial position;

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

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

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

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into each entity’s functional currency at the official exchange rate of the Central Bank of Russian Federation (“CBRF”) and the Central Bank of Ukraine at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at period-end official exchange rates of the CBRF are recognized in profit or loss. Translation at period-end rates does not apply to non-monetary items.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

At 31 December 2009, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 30.2442 (31 December 2008: USD 1 = RR 29.3804). The average rate for year ended 31 December 2009 was USD 1 = RR 31.7231 (12 months 2008: USD 1 = RR 24.8553).

2.6 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The Management Board determined retail operations as a single reportable segment.

2.7 Property, plant and equipment

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

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

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

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

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

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

Leasehold improvements are capitalised when it is probable that future economic benefits associated with the improvements will flow to the Company and the cost can be measured reliably. Capitalised leasehold improvements are depreciated over their useful lives but not longer than the terms of the respective leases.

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

2.8 Investment property

Investment property consists of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of an owned shopping center that is leased to third party retailers as investment property, unless it represents an insignificant portion of the property and is used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. After purchase or construction of the building the Group assesses the main purpose of its use, if the main purpose is to earn rental income or for capital appreciation, or both, the building is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are 20-50 years.

Fair value represents the price at which a property could be sold to a knowledgeable, willing party and has generally been determined using the comparative valuation approach. The Group did not engage an independent valuation specialist to assess the fair value of investment properties.

2.9 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to groups of cash-generating units, which are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment.

(b) Lease rights

Lease rights represent rights for favourable operating leases acquired in business combinations. Lease rights acquired in a business combination are recognised initially at fair value. Lease rights are amortised using the straight-line method over the lease term of the respective lease contracts – ranging from 5 to 50 years (20 on average).

(c) Brand and private labels

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

	Useful lives
Brand	15-20 years
Private labels	1-8 years

(d) Franchise agreements

Franchise agreements represent rights to receive royalties. Franchise agreements acquired in a business combination are recognised initially at fair value. Franchise agreements are amortised using the straight-line method over their useful lives that are, on average, ranging from 7 to 10 years (8 on average).

(e) Other intangible assets

Expenditure on acquired patents, trademarks and licenses is capitalized and amortised using the straight-line method over their useful lives ranging from 1 to 10 years (5 on average).

(f) Impairment of intangible assets

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

2.10 Operating leases

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

The Group leases retail outlets under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are classified as minimum lease payments (Note 34).

Initial direct costs incurred by the Group in negotiating and arranging an operating lease including key money paid to lessors or previous tenants for entering into lease contracts are recognised as prepaid lease costs and expensed on a straight-line basis over the lease term.

2.11 Finance lease liabilities

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

2.12 Trade receivables

Trade receivables are initially recognised at their fair values and are subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Group determines that there is objective evidence of impairment by assessing groups of receivables against credit risk factors established based on historical loss experience for each group. Indications that the trade receivable may be impaired include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. The amount of the provision is recognised in the consolidated income statement.

2.13 Inventories of goods for resale

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

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales. The Group also provides for slow moving inventory where the expected time to sell exceeds norms established by the Group.

2.14 Financial assets and liabilities

The Group classifies its financial assets into the following measurement categories: at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, if required under IFRS. The Group designates investments as available-for-sale only when they fall outside the other categories of financial assets.

Initial recognition of financial instruments

Financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. Subsequent to initial recognition, the fair values of financial instruments are measured at fair value by bid prices quoted on active markets. A gain or loss on initial recognition is only recorded if there is a difference between fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Impairment

The Group reviews the carrying value of its financial assets on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the Group records an impairment loss and reduces the carrying amount of assets by using an allowance account.

Derecognition of financial assets

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

Derivative financial instruments and hedging activities

Financial assets at fair value through profit or loss are mainly derivatives.

Derivative financial instruments are recognised initially on a settlement date basis and subsequently remeasured at fair value. The Group generally acquires derivative financial instruments quoted on active markets and therefore subsequent remeasurement is based on active market quotations rather than valuation techniques. Derivative financial instruments including foreign exchange contracts, forward rate agreements, interest rate swaps and currency options are carried as trading assets or liabilities at fair value through profit or loss. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 18. Movements on the hedging reserve in shareholders' equity are shown in Note 18.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the consolidated income statement.

Loans and receivables
Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans receivable and other receivables are carried at amortised cost using the effective interest rate method. Receivables are written off only in case of debtor's insolvency.

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

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

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into the following measurement categories: (a) financial derivatives and (b) other financial liabilities. Financial derivatives are carried at fair value with changes in value recognised in the consolidated income statement in the period in which they arise. Other financial liabilities are carried at amortised cost.

2.15 Cash
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

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

2.17 Value added tax
Output VAT related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice and fulfilment of other conditions in compliance with Russian tax legislation.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability, except for VAT, presented within other non-current assets. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

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

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

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

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

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

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

2.20 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs directly attributable to the acquisition, construction or production of assets necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

2.21 Trade and other payables

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

2.22 Share capital

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

2.23 Dividends

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

2.24 Treasury shares

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

2.25 Earnings per share

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

For the purpose of calculating the weighted average number of ordinary shares outstanding during the period in which the reverse acquisition occurs:

- the number of ordinary shares outstanding from the beginning of that period to the acquisition date is the number of ordinary shares issued by the legal parent to the owners of the legal subsidiary

- the number of ordinary shares outstanding from the acquisition date to the end of that period is the actual number of ordinary shares of the legal parent outstanding during that period.

2.26 Taxes

Current income tax liabilities (assets) are measured in accordance with IAS 12, *Income Taxes*, based on legislation that is enacted or substantively enacted at the balance sheet date, taking into consideration applicable tax rates and tax exemptions.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period in which the asset is realised or the liability is settled, based on tax rates which are enacted or substantially enacted at the balance sheet date.

Taxes other than on income, interest and penalties are measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent*. The Group provides against tax contingencies and the related interest and penalties where management can make a reliable estimate of the amount of the additional taxes that may be due. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing.

Liabilities for such taxes, interest and penalties are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date (Notes 29 and 34).

2.27 Income and expense recognition

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

(a) Revenue

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

The Group launched a loyalty card scheme in 2007. Discounts earned by customers through loyalty cards, are recorded by the Group by allocating some of the consideration received from the initial sales transaction to the award credits and deferring the recognition of revenue.

(b) Cost of sales

Cost of sales include the purchase price of the products sold and other costs incurred in bringing the inventories to the location and condition ready for sale, i.e. retail outlets. These costs include costs of purchasing, storing, rent, salaries and transporting the products to the extent it relates to bringing the inventories to the location and condition ready for sale.

The Group receives various types of allowances from suppliers in the form of slotting fees, volume discounts, and other forms of payment. In accounting for supplier bonuses received by the Group, the Group determined that these bonuses are a reduction in prices paid for the product and are reported as part of the cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables.

(c) Interest income and expense
Interest income and expense are recognised on an effective yield basis.

(d) Selling, general and administrative expenses
Selling expenses consist of salaries and wages of stores employees, store expenses, rent or depreciation of stores, utilities, advertising costs and other selling expenses. General and administrative expenses include costs of salaries and wages of support office employees, rent and depreciation of support offices, impairment and amortisation charges of non-current assets and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as incurred.

2.28 Impairment of non-current assets other than goodwill
The Group periodically assesses whether there is any indication that non-current assets may be impaired. If any such indicators exist, the Group estimates the recoverable amount of the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. Impairment loss is recognised whenever the carrying amount of an asset or the related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

2.29 Fair value of assets and liabilities at the acquisition date
In June 2008 the Group acquired 100% of the voting shares of Formata Holding B.V. which is the owner of the Karusel hypermarket chain ("Karusel"). In December 2008 the Group acquired 100% of the voting shares of OOO "Agrotorg Rostov" operating retail grocery stores in Rostov-na-Donu and Rostov region.

A primary valuation of assets and liabilities of acquired companies was performed on a provisional basis.

During the reporting period provisional values of Karusel and OOO "Agrotorg Rostov" were updated based on final fair value estimates of independent appraisers. As a consequence of the adjustment the previously reported Consolidated Statement of Financial Position as at 31 December 2008 was changed to reflect the updated provisional values from the date of acquisition (Note 7).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amount of a cash-generating unit has been determined based on the higher of fair value less costs to sell or value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12. No impairment loss on goodwill was recognized for the year ended 31 December 2009. The impairment loss on goodwill amounted to USD 2,257,020 for the year ended 31 December 2008.

Since part of this goodwill was originally recognised on the acquisition of businesses with a corresponding entry to share premium account, an amount of USD 2,190,188 has been transferred from accumulated deficit to share premium reserve.

Provisional fair value of Paterson net assets. The Group acquired 100% of the voting shares of OOO "Firma "Omega-97" which is the owner of the Paterson supermarket chain ("Paterson") during the reporting period (Note 7) and applied a number of estimates to define the provisional fair value of Paterson net assets. In estimating the provisional values of property and lease rights, direct references to observable prices in an active market are used (market approach). Estimates of other assets and liabilities are consistent with the Group policies with regard to other subsidiaries.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 34).

Property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 10). This estimate is based on projected product lifecycles and technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or reclassified as held for sale.

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. In the current period such indications exist and therefore assets impairment testing was performed (Note 10). In these cases, the Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the consolidated income statement.

Fair value of lease rights. The Group's management determines the fair value of lease rights acquired in business combinations. The assessment of the fair value of lease rights is based on the estimate of the market rates of the lease prepared by an independent valuation specialist (Note 13).

Inventories of goods for resale provisions. The Group provides for estimated inventory shrinkage on the basis of a historical shrinkage as a percentage of cost of sales. This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results. The Group also provides for slow moving inventory where the expected time to sell exceeds norms established by the Group (Note 14).

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

Fair value of franchise agreements. The Group's management determines the fair value of franchise agreements acquired in business combinations. The assessment of the fair value of franchise agreements is based on the income method using discounted royalty payments during the period of the agreements (Note 13).

Fair value of brand and private labels. The Group' management determines the fair value of brand and private labels acquired in business combinations. The assessment of the fair value of a brand is based on the income approach using the relief-from-royalty method. The assessment of fair value of private labels is based on either the income method using discounted annual savings for the remaining useful life of the labels or the cost method (Note 13).

Share-based payments. In 2007 the Group introduced an employee stock option program (ESOP) for its key executives and employees. The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the share options is measured based on the Black-Scholes model. Major assumptions are summarized in Note 28.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS AND NEW ACCOUNTING PRONOUNCEMENT

Certain new interpretations became effective for the Group from 1 January 2009:

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IFRS 8, Operating Segments. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Management Board. The Management Board determined retail operations as a single reportable segment.

***IAS 1, Presentation of Financial Statements** (revised).* The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The entity chose to present two statements: a separate consolidated income statement and a consolidated statement of comprehensive income.

***IAS 23, Borrowing Costs** (revised).* The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The effect on consolidated financial statements as at 31 December 2009 was not material.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. It is the policy of the Group to recognize the deferred revenue on their customer loyalty program as a reduction of revenue, thus, this interpretation had no impact on consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2009 and have not been early adopted:

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 9, Financial Instruments (issued in November 2009, effective for annual periods beginning on or after 1 January 2013, with earlier application permitted; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009; not yet adopted by the EU). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its consolidated financial statements to evaluate the nature and extent of liquidity risk.

IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010; not yet adopted by the EU). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment states that, if such rights are issued pro rata to an entity’s existing shareholders for a fixed amount of any currency, they should be classified as equity, regardless of the currency in which the exercise price is denominated. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

IFRIC 12, Services Concession Arrangements (effective for annual periods beginning on or after 30 March 2009; IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, with early adoption permitted). The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a Group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not expected to have any impact on the Group's consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010; not yet adopted by the EU). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

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

5 SEGMENT REPORTING

X5 Retail Group N.V. identifies retailing operations as a single reportable segment.

The Group is engaged in management of retail stores located in Russia and Ukraine. The Group identified the segment in accordance with the criteria set forth in IFRS 8 and based on the way the operations of the Company are regularly reviewed by the chief operating decision maker to analyze performance and allocate resources among business units of the Group.

The chief operating decision-maker has been determined as the Management Board. The Management Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being retailing operations including royalties, advertising, communications and rent income based on these internal reports data.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

The segment represents the Group's retail business in the European part of Russia and Ukraine. Currently the Group's Ukraine business unit's contribution to the financial results of the Group is immaterial.

Within the segment all business components demonstrate similar economic characteristics and are alike as follows:

- the products and customers;
- the business processes are integrated and uniform: the Group manages its store operations centrally, sources products centrally, support functions like Purchasing, Logistics, Development, Finance, Strategy, HR, IT, etc. are centralized;
- the Group's activities are limited to a common market zone (i.e. Russia) with uniform legislation and regulatory environment.

The Management Board assesses the performance of the operating segment based on a measure of sales and adjusted earnings before interest, tax, depreciation, and amortization (EBITDA). Other information provided to the Management Board is measured in a manner consistent with that in the consolidated financial statements.

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements as described in Note 2.

The segment information for the year ended 31 December 2009 is as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Retail sales	8,683,821	8,319,821
Other revenue	33,578	33,429
Revenue	**8,717,399**	**8,353,250**
EBITDA	**736,012**	**768,416**
Capital expenditure	169,597	898,899
Total assets	**6,179,844**	**5,647,530**
Total liabilities	**4,407,380**	**4,009,097**

Assets and liabilities are presented in a manner consistent with that in the consolidated financial statements. Capital expenditure does not include additions to intangible assets (Note 13).

A reconciliation of EBITDA to profit for the year is provided as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
EBITDA	**736,012**	**768,416**
Depreciation and amortization	(268,243)	(225,238)
Impairment of Goodwill	-	(2,257,020)
Operating profit/(loss)	**467,769**	**(1,713,842)**
Finance cost	(154,147)	(148,505)
Net foreign exchange result	(45,692)	(267,187)
Share of profit/(loss) of associates	(3,964)	(647)
Profit/(loss) before income tax	**263,966**	**(2,130,181)**
Income tax expense	(98,615)	(8,106)
Profit/(Loss) for the year	**165,351**	**(2,138,287)**

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

6 SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2009 and 31 December 2008 are as follows:

			Ownership (%)	
Company	Country	Nature of operations	31 December 2009	31 December 2008
Agroaspekt OOO	Russia	Retailing	100	100
Agrotorg OOO	Russia	Retailing	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
Grasswell Ltd.	Cyprus	Financing	100	100
Kaizer OOO	Russia	Real estate	100	100
Kama Retail OOO	Russia	Retailing	100	100
Key Retail Technologies Ltd.	Gibraltar	Trade mark	100	100
Perekrestok Holdings Ltd.	Gibraltar	Holding company	100	100
Perekrestok-2000 OOO	Russia	Retailing	100	100
Sladkaya Zhizn N.N. OOO	Russia	Retailing	100	100
Speak Global Ltd.	Cyprus	Real estate and trade mark	100	100
TH Perekrestok ZAO	Russia	Retailing	100	100
Ural Retail OOO	Russia	Retailing	100	75
Ural-Agro-Torg OOO	Russia	Retailing	100	75
X5 Finance OOO	Russia	Bond issuer	100	100
X5 Nedvizhimostn ZAO	Russia	Real estate	100	100
X5 Retail Group Ukraine ZAT	Ukraine	Retailing	100	100
Firma Omega-97 OOO	Russia	Retailing	100	-

7 ACQUISITION OF SUBSIDIARIES

Paterson

In December 2009 the Group acquired 100% of the business and assets of Paterson, a non-public supermarket chain of 82 stores located in Moscow, the Moscow region, St. Petersburg, Kazan and other cities of European Russia and Urals.

In the year ended 31 December 2009 the acquired business of Paterson contributed revenue of USD 34,068 and a net loss of USD 706 from the date of acquisition. If the acquisition of Paterson had occurred on 1 January 2009, the Group's revenue for the year ended 31 December 2009 would have been USD 9,014,525 and the Group's net profit for the year ended 31 December 2009 would have been USD 148,498. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Paterson.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

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

	Acquiree's carrying amount at the acquisition date, Russian GAAP*	Provisional values at the acquisition date
Cash and cash equivalents	3,361	3,311
Inventories of goods for resale	29,912	14,829
Loans originated	3,622	1,728
Trade and other accounts receivable	80,889	14,524
Intangible assets	14	22,677
Property, plant and equipment (Note 10)	31,278	126,286
Deferred tax assets	358	5,649
Short-term borrowings	(10,251)	(82,385)
Trade and other accounts payable	(64,578)	(69,969)
Provisions and liabilities for tax uncertainties (Note 34)	-	(41,253)
Long-term borrowings	(79,402)	(6,883)
Deferred tax liability	(28)	(14,116)
Net liability acquired	(4,825)	(25,602)
Goodwill (Note 12)		216,471
Total acquisition cost		**190,869**
Net cash outflow arising from the acquisition for the year ended 31 December 2009		**187,508**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

The Group assigned provisional values to net assets acquired based on estimates of the independent appraisal. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 189,500 and directly attributable transactions costs of USD 1,369, part of which in the amount of USD 1,319 was paid in 2009 and USD 50 to be paid in 2010.

The goodwill recognised is attributable to: i) the business concentration in the Moscow, Saint-Petersburg and other Russian regions and their neighbouring areas and ii) expected cost synergies from the business combination.

Internet Retail

In October 2009 the Group has acquired 51% of voting shares of Epylon Limited. Epylon Limited is the owner of the internet stores www.bolero.ru and www.003.ru ("Internet Retail").

In the year ended 31 December 2009 the acquired business of Internet Retail contributed revenue of USD 3,741 and a net loss of USD 526 from the date of acquisition. If the acquisition of Internet Retail had occurred on 1 January 2009, the Group's revenue for the year ended 31 December 2009 would have been USD 8,719,454 and the Group's net profit for the year ended 31 December 2009 would have been USD 165,151. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Internet Retail.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

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

	Acquiree's carrying amount at the acquisition date, Russian GAAP*	Provisional values at the acquisition date
Cash and cash equivalents	20	20
Inventories of goods for resale	1,279	1,279
Trade and other accounts receivable	1,118	1,113
Intangible assets	-	4
Property, plant and equipment (Note 10)	59	13
Deferred tax assets	-	14
Trade and other accounts payable	(2,662)	(2,662)
Net liability acquired	(186)	(219)
Goodwill (Note 12)		1,374
Total acquisition cost		**1,155**
Net cash outflow arising from the acquisition for the year ended 31 December 2009		**1,135**

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

The Group assigned provisional values to net assets acquired. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 871 and directly attributable transactions costs of USD 284.

The goodwill recognised is attributable to expected cost synergies from the business combination.

Perfumes Planet

In December 2009 the Group entered into partnership agreement with Perfumes Planet Switzerland. In accordance with the agreement the Group acquired from Perfumes Planet Switzerland 20% of voting shares in Perfumes Planet Cyprus Limited that will develop perfume selling points in or near Group food retail stores in Moscow, Saint-Petersburg, Nizhny Novgorod and respective regions. At the initial stage perfume selling points will be opened mainly in Moscow and the Moscow region in 2010. The cost of acquisition of associate was insignificant, no significant transactions occurred in 2009.

Karusel

In June 2008 the Group acquired 100% of the voting shares of Formata Holding B.V. Formata Holding B.V. is the owner of the Karusel hypermarket chain ("Karusel"), pursuant to the conditions of the Call Option Agreement, obtained in 2006 as a part of Pyaterochka acquisition. Karusel owns and operates hypermarkets located in St. Petersburg and the North West of Russia, the Moscow region, Nizhny Novgorod, Dzerzhinsk, Volgograd and Izhevsk. As at 30 June 2008 there were 24 hypermarkets operated under the Karusel brand.

During the year ended 31 December 2009 the provisional values were updated as the Group has the final fair value estimates of the independent appraisers. The Group has finalized the purchase price allocation within 12 months from the acquisition date. Details of assets and liabilities acquired and the related goodwill are as follows:

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

	Acquiree's carrying amount at the acquisition date, Russian GAAP*	Fair values at the acquisition date	Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2008
Cash and cash equivalents	25,699	25,699	-
Inventories of goods for resale	102,509	77,956	(5,082)
Loans originated	612	261	(282)
Trade and other accounts receivable	248,849	212,088	(26,309)
Intangible assets	-	124,610	-
Property, plant and equipment (Note 10)	492,235	943,854	(56,167)
Prepaid lease	9	622	-
Deferred tax assets	6,994	7,052	-
Other assets	582	251	-
Short-term borrowings	(293,492)	(293,492)	-
Trade and other accounts payable	(258,384)	(263,236)	(887)
Provisions and liabilities for tax uncertainties (Note 34)	-	(56,478)	-
Long-term borrowings	(120,985)	(120,986)	-
Deferred tax liability	(8,467)	(146,077)	12,809
Net assets acquired	196,161	512,124	
Goodwill (Note 12)	-	404,212	
Total acquisition cost	-	**916,336**	
Net cash outflow arising from the acquisition for the year ended 31 December 2008		**658,927**	

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

Agrotorg Rostov

In December 2008 the Group acquired 100% of the voting shares of OOO "Agrotorg Rostov" operating retail grocery stores in Rostov-na-Donu and Rostov region. The Group acquired a total of 21 discount stores.

The Group has finalized the purchase price allocation within 12 months from the acquisition date.

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

	Acquiree's carrying amount at the acquisition date, Russian GAAP*	Fair values at the acquisition date	Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2008
Cash and cash equivalents	77	77	-
Inventories of goods for resale	1,460	482	(601)
Trade and other accounts receivable	1,359	390	(210)
Intangible assets	-	714	136
Property, plant and equipment	15,306	11,794	(2,329)
Deferred tax assets	2,538	415	415
Trade and other accounts payable	(1,930)	(4,249)	1,113
Provisions and liabilities for tax uncertainties (Note 34)	-	(583)	-
Deferred tax liability	(312)	-	254
Net assets acquired	18,498	9,040	
Goodwill (Note 12)		3,264	
Total acquisition cost	-	**12,304**	
Net cash outflow arising from the acquisition for the year ended 31 December 2008	-	**77**	
Net cash outflow arising from the acquisition for the period ended 31 December 2009	-	**10,264**	

* Russian GAAP numbers are disclosed since IFRS financial statements were not prepared by the entities before acquisition.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

The purchase consideration comprises cash paid of USD 637, loan of USD 9,625 from "BinBank" assigned to the Group from Agrotorg Rostov and attributable costs of USD 2,042.

Chelyabinsk and Yekaterinburg

In June 2009 the purchase option was exercised and the Group increased its shareholding in OOO "Ural-Agro-Torg", OOO "Leto", OOO "Ural-Retail" and OOO "Legion" from 75% to 100%. Total acquisition cost comprised of the option utilised of USD 765 and cash paid USD 18,389 in 2009. Goodwill arising on the purchase of the minority amounted to USD 19,154 (Note 12).

Korzinka

In November 2007 the Group acquired a 100% shareholding in OOO "Uzhnyi" operating the largest and fastest growing retail chain in the Lipetsk region under "Korzinka" brand. The Group acquired a total of 22 stores. Total acquisition cost amounted to USD 119,439, part of which in the amount of USD 12,071 was paid during the year ended 31 December 2009.

8 RELATED PARTY TRANSACTIONS

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

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2009 are provided below. The ultimate controlling party is disclosed in Note 1.

Alfa Group

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

	Relationship	31 December 2009	31 December 2008
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,178	1,302
Recharged expenses		749	545
OAO "Alfa-Bank"	Under common control		
Interest expense on loan received		17,970	21,578
Interest income		1,458	-
Bank Charges		1,114	1,487
Rent revenue		794	200
Penalty		-	29
AlfaStrahovanie	Under common control		
Insurance expenses		5	14
VimpelCom			
Communication services received	Under significant influence of CTF Holdings Ltd.	3,585	3,601
Commission for mobile phone payments processing rendered by the Group to VimpelCom		698	765
Rent revenue		105	-

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

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

	Relationship	31 December 2009	31 December 2008
CTF Holding Ltd.	Ultimate parent company		
Other accounts payable		115	-
OAO "Alfa-Bank"	Under common control		
Cash and cash equivalents		208,610	17,237
Receivable from related party		277	118
Short-term loans payable		75,000	168,480
Other accounts payable		112	570
AlfaStrahovanie	Under common control		
Receivable from related party		1,098	493
Other accounts payable		10	-
VimpelCom			
Receivable from related party	Under significant influence of CTF Holdings Ltd.	512	945
Other accounts payable		536	439

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 9,100 mln or USD 300,884 (31 December 2008: RUR 9,100 mln or USD 309,730). At 31 December 2009 the Group's liability under this credit line amounted to USD 75,000 with interest rates of 3.60 - 3.86% p.a. (31 December 2008: USD 168,480) and available credit line of USD 225,884 (31 December 2008: USD 141,250).

Retail Express Ltd. (associate of the Group)

The following transactions were carried out with Retail Express Ltd.:

	Relationship	2009	2008
Retail Express Ltd.			
Trade revenue		7,625	-
Other operating income	associate of the Group	143	-
Rent revenue		106	-
Interest income		25	37

The consolidated financial statements include the followings balances with Retail Express Ltd.:

	Relationship	2009	2008
Retail Express Ltd.			
Loans and receivables	associate of the Group	3,213	27
Trade payables		594	-
Investment in associate		5,609	10,054

At 31 December 2009 and for the year then ended summarised financial information of Retail Express Ltd., including total assets, liabilities, revenue and loss, were as follows:

	2009	2008
Assets	31,338	59,220
Liabilities	(18,674)	(35,463)
Revenue for the period	60,464	12,153
Loss for the period	(9,909)	(1,618)

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Key management personnel compensation

Key management personnel compensation is disclosed in Note 27.

9 CASH AND CASH EQUIVALENTS

	31 December 2009	31 December 2008
Cash in hand – Roubles	22,930	18,742
Cash in hand – Ukrainian Hryvnia	188	196
Bank current account – Roubles	252,956	72,576
Bank current account – Ukrainian Hryvnia	13	-
Bank current accounts and deposits – US Dollars	5,286	45,598
Cash in transit – Roubles	70,477	63,397
Cash in transit – Ukrainian Hryvnia	632	554
Short term deposits - Roubles	54,820	72,000
Other cash equivalents	4,379	3,774
	411,681	**276,837**

The bank accounts represent current accounts. Interest income on overnights/term deposits is immaterial. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

The Group assesses credit quality of outstanding cash and cash equivalents balances as high and considers that there is no significant individual exposure. Maximum exposure to credit risk at the reporting date is the carrying value of cash and bank balances.

Credit quality of cash and cash equivalents balances are summarized as follows (current ratings):

Bank	Moody's	Fitch	S&P	31 December 2009	31 December 2008
Alfa-Bank	Ba1	BB-	B+	208,610	17,237
Raiffeisenbank	Baa3	BBB+	BBB-	20,314	140,568
Sberbank	Baa1	BBB	-	51,273	28,243
VTB	Baa1	BBB	BBB	19,031	1,889
Other banks				13,847	1,995
Cash in transit and in hand				94,227	82,889
Other monetary assets				4,379	4,016
Total				**411,681**	**276,837**

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2008	1,532,179	186,974	125,169	30,396	129,923	233,997	2,238,638
Additions	175,310	7,875	1,800	263	4,627	705,989	895,864
Transfers	415,159	73,567	46,526	(1,452)	(43,191)	(513,419)	(22,810)
Assets from acquisitions (Note 7)	795,286	57,819	22,215	283	18,044	72,670	966,317
Disposals	(4,233)	(2,340)	(737)	(501)	(2,393)	(179)	(10,383)
Translation movement	(495,517)	(53,843)	(32,562)	(4,756)	(18,543)	(83,282)	(688,503)
At 31 December 2008	2,418,184	270,052	162,411	24,233	88,467	415,776	3,379,123
Additions	26,784	10,840	1,901	5,086	3,546	112,866	161,023
Transfers	135,435	87,038	18,292	4,710	23,680	(276,673)	(7,518)
Assets from acquisitions (Note 7)	100,677	6,140	11,981	3	500	6,998	126,299
Disposals	(3,251)	(3,748)	(1,167)	(32)	(642)	(410)	(9,250)
Translation movement	(60,682)	(6,561)	(3,863)	(245)	(2,258)	(20,807)	(94,416)
At 31 December 2009	2,617,147	363,761	189,555	33,755	113,293	237,750	3,555,261
Accumulated depreciation:							
At 1 January 2008	(99,217)	(68,084)	(33,488)	(2,923)	(44,368)	-	(248,080)
Charge for the year	(88,082)	(37,086)	(23,069)	(3,752)	(6,081)	-	(158,070)
Disposals	629	620	512	306	660	-	2,727
Translation movement	26,388	16,621	9,024	336	10,975	-	63,344
At 31 December 2008	(160,282)	(87,929)	(47,021)	(6,033)	(38,814)	-	(340,079)
Charge for the year	(108,387)	(45,490)	(21,131)	(4,898)	(21,696)	(20,187)	(221,789)
Disposals	222	1,600	449	16	560	-	2,847
Translation movement	(1,540)	807	420	(35)	428	(991)	(911)
At 31 December 2009	(269,987)	(131,012)	(67,283)	(10,950)	(59,522)	(21,178)	(559,932)
Net book value at 31 December 2009	**2,347,160**	**232,749**	**122,272**	**22,805**	**53,771**	**216,572**	**2,995,329**
Net book value at 31 December 2008	**2,257,902**	**182,123**	**115,390**	**18,200**	**49,653**	**415,776**	**3,039,044**
Net book value at 1 January 2008	**1,432,962**	**118,890**	**91,681**	**27,473**	**85,555**	**233,997**	**1,990,558**

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

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 34). Certain land leases are prepaid for a 49 year term. Such prepayments are presented as prepaid leases in the consolidated statement of financial position and amount to USD 98,510 (31 December 2008: USD 90,831)

Impairment Test

At the end of 2009 management performed a regular impairment test of land, buildings and construction in progress. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally at the individual store level. The variability of these factors depends on a number of conditions, including uncertainty about future events and changes in demand.

An impairment review has been carried out by comparing recoverable amount of the individual store with their carrying values. The recoverable amount of store is determined as the higher of fair value less cost to sell or value in use.

Fair value less costs to sell

The Group defines fair value less costs to sell of the item of land and buildings and construction in progress by reference to current observable prices on an active market.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Value in use

Discounted free cash flow approach is applied and covered a 10 year period from 2010. The free cash flows are based on the current budgets and forecasts approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price indices as obtained from external resources and key performance indicators inherent to the strategic plan. The projections are made in the functional currency of the Group and discounted at the Group weighted average cost of capital (12%-16%). EBITDA growth rate used for projections was 8.1%, inflation rates are inline with consumer price index forecast published by Ministry of Economical Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best estimates.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

Impairment Test

The carrying amount of the stores exceeded their recoverable amount and impairment loss was recognised in amount of USD 48,253 included in depreciation expense.

	Useful lives
Land and buildings	28,066
Construction in progress	20,187
Total	**48,253**

11 INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2009 and 31 December 2008:

Cost	2009	2008
Cost at 1 January	130,997	132,595
Additions	8,574	3,034
Transfer from fixed assets	7,518	22,810
Translation movement	(2,953)	(27,442)
Cost at 31 December	144,136	130,997
Accumulated depreciation:		
Accumulated depreciation at 1 January	(5,304)	(3,589)
Charge for the year	(5,299)	(4,668)
Translation movement	(108)	2,953
Accumulated depreciation at 31 December	(10,711)	(5,304)
Net book value at 31 December	**133,425**	**125,693**
Net book value at 1 January	**125,693**	**129,006**

Rental income from investment property amounted to USD 22,967 (2008: USD 22,141). Direct operating expenses incurred by the Group in relation to investment property amounted to USD 7,759 (2008: 6,271).

Management estimates that the fair value of investment property at 31 December 2009 amounted to USD 164,641 (31 December 2008: USD 130,844).

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

12 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2009 and 31 December 2008 are:

Cost	2009	2008
Gross book value at 1 January	2,811,579	2,955,625
Acquisition of subsidiaries (Note 7)	236,999	425,294
Translation to presentation currency	(88,498)	(569,340)
Gross book value at 31 December	2,960,080	2,811,579
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,257,020)	-
Translation to presentation currency	64,463	-
Accumulated impairment losses at 31 December	(2,192,557)	(2,257,020)
Carrying amount at 31 December	**767,523**	**554,559**
Carrying amount at 1 January	**554,559**	**2,955,625**

Goodwill Impairment Test

Goodwill is monitored for internal management purposes at the segment level being retail trading in Russia (CGU).

Goodwill is tested for impairment at the CGU level by comparing carrying values of CGU assets to their recoverable amounts. The recoverable amount of CGU is determined as the higher of fair value less cost to sell or value in use.

Fair value less costs to sell

The Group defines fair value less costs to sell of the CGU by reference to an active market, i.e. as a market capitalization of the Group on the London Stock Exchange, since the Group's activities other than retail trade in Russia do not have a significant effect on the fair value. For indication purposes fair value less costs to sell of the CGU will be lower than its carrying amount if the share price falls below the level of USD 26.14 per share. The market capitalization of the Group at 31 December 2009 amounted to USD 8,653,060 significantly exceeded the carrying amount of the CGU.

Value in use

Discounted free cash flow approach was utilized. For the 10 year period from 2010 the free cash flows are based on the current budgets and forecasts approved by key management. For the subsequent years, the data of the strategic plan are extrapolated based on the consumer price indices as obtained from external resources and based on key performance indicators inherent to the strategic plan. The projections are made in the functional currency of the Group and discounted at the Group weighted average cost of capital (12%-16%). EBITDA growth rate used for projections was 8.1%, inflation rates are inline with consumer price index forecast published by Ministry of Economical Development of Russian Federation. The Group's management believes that all of its estimates are reasonable and consistent with the internal reporting and reflect management's best estimates.

Model applied for impairment testing is not sensitive to assumptions used by management because fair value less cost to sell and value in use are significantly greater than carrying values of cash generating unit assets.

The result of applying discounted cash flows model reflects expectations about possible variations in the amount and timing of future cash flows and is based on reasonable and supportable assumptions that represent management's best estimate of the range of uncertain economic conditions.

Impairment Test

The recoverable amount of CGU exceeded its carrying amount therefore no impairment was recognised.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

13 INTANGIBLE ASSETS

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost:					
At 1 January 2008	358,849	76,727	6,580	139,518	581,674
Additions	-	-	8,361	-	8,361
Acquisition of subsidiaries (Note 7)	124,196	-	437	8,137	132,770
Disposals	(1,294)	(271)	-	-	(1,565)
Translation movement	(83,186)	(12,583)	(2,456)	(24,632)	(122,857)
At 31 December 2008	398,565	63,873	12,922	123,023	598,383
Additions	-	-	31,022	-	31,022
Acquisition of subsidiaries (Note 7)	2,176	670	926	18,909	22,681
Disposals	(780)	(1,431)	-	-	(2,211)
Translation movement	(11,508)	(1,920)	1,147	(4,271)	(16,552)
At 31 December 2009	388,453	61,192	46,017	137,661	633,323
Accumulated amortisation:					
At 1 January 2008	(30,125)	(12,910)	(5,881)	(8,513)	(57,429)
Charge for the year	(23,077)	(20,982)	(4,526)	(13,914)	(62,499)
Disposals	1,293	-	-	-	1,293
Translation movement	7,677	5,356	2,953	3,590	19,576
At 31 December 2008	(44,232)	(28,536)	(7,454)	(18,837)	(99,059)
Charge for the year	(21,196)	(8,775)	(1,887)	(9,297)	(41,155)
Disposals	780	1,431	-	-	2,211
Translation movement	266	455	(40)	110	791
At 31 December 2009	(64,382)	(35,425)	(9,381)	(28,024)	(137,212)
Net book value at 31 December 2009	**324,071**	**25,767**	**36,636**	**109,637**	**496,111**
Net book value at 31 December 2008	**354,333**	**35,337**	**5,468**	**104,186**	**499,324**
Net book value at 1 January 2008	**328,724**	**63,817**	**699**	**131,005**	**524,245**

14 INVENTORIES OF GOODS FOR RESALE

Inventories of goods for resale as of 31 December 2009 and 31 December 2008 comprise the following:

	31 December 2009	31 December 2008
Inventories of goods for resale	675,886	502,350
Less: provision for shrinkage and slow moving stock	(63,164)	(25,875)
	612,722	**476,475**

Provision for inventory shrinkage and slow moving stock recognised as cost of sales in the consolidated income statement amounted to USD 191,287 (2008: USD 134,292).

15 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Financial assets at fair value through profit and loss	Total
31 December 2009			
Assets as per consolidated statement of financial position			
Trade and other receivables excluding prepayments	214,713	-	214,713
Loans originated	2,848	-	2,848
Cash and cash equivalents	411,681	-	411,681
Total	629,242	-	629,242

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

	Derivatives used for hedging	Financial liabilities at amortised cost	Total
31 December 2009			
Liabilities as per consolidated statement of financial position			
Borrowings (excluding finance lease liabilities)	-	1,944,000	1,944,000
Interest accrued	-	8,863	8,863
Finance lease liabilities	-	6,536	6,536
Derivative financial instruments	10,108	-	10,108
Trade and other payables excluding statutory liabilities and advances	-	1,840,822	1,840,822
Total	**10,108**	**3,800,221**	**3,810,329**

	Loans and receivables	Financial assets at fair value through profit and loss	Total
31 December 2008			
Assets as per consolidated statement of financial position			
Derivative financial instruments	-	765	765
Trade and other receivables excluding prepayments	79,592	-	79,592
Loans originated	350	-	350
Cash and cash equivalents	276,837	-	276,837
Total	**356,779**	**765**	**357,544**

	Derivatives used for hedging	Financial liabilities at amortised cost	Total
31 December 2008			
Liabilities as per consolidated statement of financial position			
Borrowings (excluding finance lease liabilities)	-	2,059,401	2,059,401
Interest accrued		8,384	8,384
Finance lease liabilities	-	4,040	4,040
Derivative financial instruments	18,180	-	18,180
Trade and other payables excluding statutory liabilities and advances	-	1,433,735	1,433,735
Total	**18,180**	**3,505,560**	**3,523,740**

16 TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2009	31 December 2008
Trade accounts receivable	214,403	69,921
Advances made to trade suppliers	25,752	22,150
Other receivables	19,320	12,785
Prepayments	69,106	74,571
Accounts receivable for franchise services	1,814	61
Receivables from related parties (Note 8)	5,290	9,719
Provision for impairment of trade and other receivables	(26,114)	(12,894)
	309,571	**176,313**

All classes of receivables are categorized as loans and receivables under IAS 39 classification.

The carrying amounts of the Group's trade and other receivables are primarily denominated in Russian Roubles.

Trade receivables

There are balances of USD 27,715 that in accordance with accounting policies are past due but not impaired as at 31 December 2009 (31 December 2008: USD 12,997).

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

The ageing of these receivables based on days outstanding is as follows:

	31 December 2009	31 December 2008
2-6 months	23,313	10,840
Over 6 months	4,402	2,157
	27,715	**12,997**

Movements on the provision for impairment of trade receivables are as follows:

	2009	2008
At 1 January	(11,233)	(5,787)
Accrual of provision for receivables impairment	(12,020)	(10,014)
Release of provision for receivables impairment	9,821	2,861
Translation movement	313	1,707
At 31 December	**(13,119)**	**(11,233)**

The creation and release of the provision for impaired receivables have been included in general and administrative costs in the consolidated income statement.

The individually impaired trade receivables mainly relate to debtors that expect financial difficulties or there is likelihood of the debtor's insolvency. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 December 2009	31 December 2008
3-6 months	643	1,843
Over 6 months	12,476	9,390
	13,119	**11,233**

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. Trade receivables are mainly bonuses from suppliers of goods for resale receivable on quarterly basis with a low historic default rate. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

Other receivables and receivables for franchise services

There are balances of USD 4,961 that in accordance with accounting policies are past due but not impaired as at 31 December 2009 (31 December 2008: USD 6,945).

The ageing of these receivables based on days outstanding is as follows:

	31 December 2009	31 December 2008
2-6 months	3,522	3,058
Over 6 months	1,439	3,887
	4,961	**6,945**

Movements on the provision for impairment of other receivables are as follows:

	2009	2008
At 1 January	(1,661)	(1,789)
Accrual of provision for receivables impairment	(11,639)	(276)
Release of provision for receivables impairment	883	79
Translation movement	(578)	325
At 31 December	**(12,995)**	**(1,661)**

The creation and release of the provision for impaired receivables has been included in general and administrative costs in the consolidated income statement.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

The individually impaired other receivables mainly relate to debtors that expect financial difficulties or there is likelihood of the debtor's insolvency. It was assessed that a portion of the receivables are expected to be recovered.

The ageing of amounts receivable that are individually impaired based on days outstanding is as follows:

	31 December 2009	31 December 2008
3-6 months	461	344
Over 6 months	12,534	1,317
	12,995	**1,661**

For those receivables that are neither past due nor impaired the Group considers the credit quality as high. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The Group does not hold any collateral as security.

17 VAT AND OTHER TAXES RECOVERABLE

	31 December 2009	31 December 2008
VAT recoverable	161,397	234,339
Other taxes recoverable	13,365	5,079
	174,762	**239,418**

VAT recoverable related to property, plant and equipment of USD 20,542 (31 December 2008: USD 59,868) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. Timing of the VAT refund depends on the registration of certain property, plant and equipment, therefore there are risks that recovering the balance may take longer than twelve months.

18 DERIVATIVES

As at 31 December 2008 call option for a 25% share in subsidiaries in the amount of USD 765 was recognized. The option was utilized in 2009 (Note 7).

The Group applied hedge accounting to interest rate swaps initiated in 2008 and in 2009 (Note 30). As at 31 December 2009 the negative fair value of the interest rate swaps of USD 10,108 was recognised in Equity (31 December 2008: USD 18,180).

19 PROVISIONS AND OTHER LIABILITIES

	31 December 2009	31 December 2008
Taxes other than income tax	61,961	51,012
Provisions and liabilities for tax uncertainties (Note 34)	147,087	110,619
Accrued salaries and bonuses	102,653	99,600
Payables to landlords	6,462	4,747
Other accounts payable and accruals	141,004	115,128
Accounts payable for services received	16,244	17,701
Accounts payable for property, plant and equipment	18,134	21,280
Advances received	40,161	37,403
	533,706	**457,490**

There are no significant amounts of payables to foreign counterparties as at 31 December 2009 and 31 December 2008.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

20 BORROWINGS

		31 December 2009		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total
USD Syndicated loan	USD Libor+1.5%	1,093,135	-	1,093,135
USD Bilateral Loans	3.6%-3.86%	75,000	-	75,000
RUR Bonds	7.6% - 18.46%	297,390	262,403	559,793
RUR Bilateral Loans	Mosprime +3.1% - +4.25%	57,874	24,972	82,846
RUR Bilateral Loans	15.25%-19%	133,223	3	133,226
Total borrowings		**1,656,622**	**287,378**	**1,944,000**

		31 December 2008		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total
USD Syndicated loan	USD Libor+1.5%	-	1,087,617	1,087,617
USD Bilateral Loans	USD Libor + 1,4% - 4%	200,000	-	200,000
RUR Bonds	7,6% - 12%	5,919	304,986	310,905
RUR Bilateral Loans	Mosprime +3,1%	9,494	35,201	44,695
RUR Bilateral Loans	7.57%-19.6%	363,020	53,164	416,184
Total borrowings		**578,433**	**1,480,968**	**2,059,401**

In December 2007 the Group raised a 3 year syndicated loan facility of USD 1,100,000 from a consortium of banks. The margin for the first year was 2.25% per annum over USD LIBOR. In December 2008 the margin changed from 2.25% to 1.5% in accordance with an agreed the Net Debt/EBITDA grid. LIBOR is fixed from a one to six month period. The Group has pledged as collateral for the syndicated loan 100% of the voting shares in its subsidiaries, including OOO “Agrotorg”, OOO “Agroaspekt”, Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO “TH “Perekrestok”, OOO “Perekrestok-2000” and ZAO “X5 Nedvizhimost”. In November 2009 X5 Retail Group and Sberbank reached agreement on a “forward-start” committed credit facility for refinancing of USD 1,100,000 syndicated loan with December 2010 maturity. In January 2010 X5 Retail Group and Sberbank finalized documentation of this credit facility. Refinancing will be in the form of 5-year rouble denominated committed credit facility up to USD 1,100,000 (in RUR equivalent, based on the exchange rate of the CBR as at the draw down date). The credit facility may be utilized in several tranches with varying maturities.

In July 2007 the Group placed RUR 9 bn (USD 297,578) corporate bonds with a maturity of 7 years including a put option exercisable at the option of the bond holder, in 3 years. Coupons 1 to 6 were fixed at the level of 7.60% per annum, with the remaining coupon level to be defined by the Group later.

In June 2009 the Group placed RUR 8 bn (USD 264,463) corporate bonds with a maturity of 7 years including a put option exercisable at the option of the bond holder, in 2 years. Coupon rates for 5-14 coupon payments are defined by the Issuer, according to issue documents.

All borrowings at 31 December 2009 are shown net of related transaction costs of USD 10,056 which are amortised over the term of loans using the effective interest method (31 December 2008: USD 13,726).

In accordance with the syndicated loan facility agreement the Group maintains an optimal capital structure by tracking certain capital requirements: the maximum level of Debt/EBITDA (4.25), minimum level of EBITDA/Interest expense (3), minimum level of EBITDAR/Fixed costs (2.25) and required level of capital expenditure.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

21 SHARE CAPITAL

As at 1 January 2008 the Group had 942,278 ordinary shares held as treasury stock. The nominal par value of each ordinary share is EUR 1.

In May 2008 the Group completed an offering of rights to acquire Global Depositary Receipts, following the decision of the Supervisory Board authorized by the Extraordinary General Meeting of Shareholders. As part of the Public Offering the Company issued an additional 12,026,675 ordinary shares for USD 999,454 and sold 942,278 treasury shares (total cash inflow of USD 143,336 comprised of USD 131,919 cash receipt for the sale of treasury shares and a make-whole payment of USD 11,417 received by the Group as compensation related to the Public Offering). Transaction costs relating to issue of share capital deducted from shareholder's equity amounted to USD 26,164.

As part of the acquisition of Karusel in June 2008 the Group issued an additional 1,746,505 ordinary shares which were transferred to Karusel shareholders in exchange for 25% shares of Formata.

As at 31 December 2009 the Group had 190,000,000 authorized ordinary shares of which 67,813,947 ordinary shares are outstanding and 79,271 ordinary shares held as treasury stock.

No dividends were paid or declared during the year ended 31 December 2009 and the year ended 31 December 2008.

22 EARNINGS PER SHARE

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

Earnings per share are calculated as follows:

	2009	2008
Profit/(Loss) attributable to equity holders of the Parent	165,351	(2,138,287)
Weighted average number of ordinary shares in issue	67,813,947	63,928,885
Effect of share options granted to employees	149,281	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,963,228	63,928,885
Basic earnings/(losses) per share for profit from continuing operations (expressed in USD per share)	**2.44**	**(33.45)**
Diluted earnings/(losses) per share for profit from continuing operations (expressed in USD per share)	**2.43**	**(33.45)**

23 REVENUE

	2009	2008
Revenue from sale of goods	8,683,821	8,319,821
Revenue from franchise services	8,060	11,029
Revenue from other services	25,518	22,400
	8,717,399	**8,353,250**

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

24 EXPENSES BY NATURE

	2009	2008
Cost of goods sold	6,409,199	6,044,109
Staff costs (Note 27)	855,189	858,813
Operating lease expenses	267,857	260,161
Depreciation, amortisation and impairment	268,243	225,238
Other store costs	150,760	165,114
Utilities	159,577	134,789
Other	239,301	216,624
Before Goodwill Impairment	**8,350,126**	**7,904,848**
Goodwill Impairment	-	2,257,020
After Goodwill Impairment	**8,350,126**	**10,161,868**

Operating lease expenses include USD 248,379 (2008: USD 243,030) of minimum lease payments and contingent rents of USD 19,478 (2008: USD 17,131).

Provision for impairment of trade and other receivables amounted to USD 12,955 for the year ended 31 December 2009 (2008: USD 7,350).

25 OPERATING LEASE INCOME

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

	2009	2008
Not later than 1 year	40,072	44,692
Later than 1 year and no later than 5 years	17,726	18,544
Later than 5 years	7,965	5,343
	65,763	**68,579**

The rental income from operating leases recognised in the consolidated income statement amounted to USD 92,391 (2008: USD 89,918). There were no contingent rents recognised in the consolidated income statement in the year ended 31 December 2009 (2008: nil).

26 FINANCE INCOME AND COSTS

	2009	2008
Interest expense	148,275	149,723
Interest income	(3,817)	(10,511)
Other finance costs, net	9,689	9,293
	154,147	**148,505**

Other finance costs include transaction costs of USD 6,950 written-off to the consolidated income statement (2008: USD 5,158) (Note 20).

27 STAFF COSTS

	2009	2008
Wages and salaries	662,947	729,556
Social security costs	132,926	131,708
Share-based payments expense	59,316	(2,451)
	855,189	**858,813**

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Key executive management personnel
X5's key management personnel consists of Management Board and Supervisory Board members, having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Members of the Management Board and Supervisory Board of the Group receive compensation in the form of a short-term compensation in cash (including, for Management Board members, a cash bonus) and share-based payments (Note 28). For the year ended 31 December 2009 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 6,524 (2008: USD 6,793), including bonuses of USD 2,060 (2008: USD 2,871). The compensation is made up of annual remuneration and a performance bonus depending on, inter alia, operating results. As at 31 December 2009 the total amount of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 3,187,500 (31 December 2008: 2,814,375 GDRs). The total intrinsic value of vested share options amounted to USD 1,245 as at 31 December 2009 (31 December 2008: zero).

28 SHARE-BASED PAYMENTS

In 2007 the Group introduced an employee stock option program (ESOP) for its key executives and employees. Each option that may be granted under the ESOP carries the right to one GDR. The program ran in four tranches granted over the period to 19 May 2009. The vesting requirement of the program is the continued employment of participants.

The first and second tranches were approved for granting at 15 June 2007. The first tranche vested immediately and covered the period of service of option holders from 1 January 2007 to 15 June 2007. The second tranche vested on 18 May 2008. The exercise prices of the first and second tranches were USD 15.96 and USD 28.58 per GDR , respectively. In May 2008 the third tranche was granted at the exercise price of USD 33.43. The third tranche vested on 19 May 2009. In May 2009 the fourth tranche was granted at the exercise price of USD 13.91. The fourth tranche will vest on 19 May 2010. Participants of the ESOP can exercise their share options granted under first, second, third and fourth tranches over the period from vesting until 19 November 2010, 16 December 2011, 20 November 2012 and 20 November 2013 respectively, at any time except black-out periods defined by Group's Code of Conduct of Insider Dealing. The maximum number of GDRs under the ESOP was 11,261,264 GDRs.

In total, during the year ended 31 December 2009 the Group recognized an expense related to the ESOP in the amount of USD 59,316 (income during the year ended 31 December 2008: USD 2,451). At 31 December 2009 the share-based payments liability amounted to USD 85,545 (31 December 2008: USD 37,921). The equity component was effectively zero at 31 December 2009 (31 December 2008: zero).

Details of the share options outstanding during the year ended 31 December 2009 are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	5,704,825	28.9
Granted during the period	3,203,875	13.9
Exercised during the period	(830,000)	16.3
Cancelled during the period	(491,750)	23.2
Outstanding at the end of the period	**7,586,950**	**24.4**
Exercisable at 31 December 2009	4,484,325	31.6

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

The total intrinsic value of vested share options amounted to USD 2,538 as at 31 December 2009 (31 December 2008: zero).

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options due to behavioural considerations. Other key inputs to the calculation of ESOP liability at 31 December 2009 were as follows:

Expected GDR price	30.06
Expected volatility	73%
Risk-free interest rate	3%
Dividend yield	0%

29 INCOME TAX

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax charge	168,438	178,244
Deferred income tax benefit	(69,823)	(129,196)
Deferred tax benefit resulting from reduction in tax rate**	-	(40,942)
Income tax charge for the year	**98,615**	**8,106**

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit/(Loss) before taxation	263,966	(2,130,181)
Theoretical tax at the effective statutory rates *	52,793	(511,243)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Goodwill impairment	-	541,492
Reduction in deferred taxes closing balance resulting from reduction in tax rate**	-	(40,942)
Share-based payments expenses	2,561	517
Effect of income taxable at rates different from standard statutory rates	9,283	40,043
Effect of different tax regime in parent company	(3,169)	(38,590)
Recognition of DT asset on prior losses for which no DT asset was previously recognised	(7,225)	(20,356)
Expenses on inventory shrinkage and surpluses	37,409	42,530
Other non-deductible expenses and non-taxable income	6,963	(5,345)
Income tax charge for the year	**98,615**	**8,106**

* Profit before taxation on Russian operations is assessed based on the statutory rate of 20% (2008: 24%), profit before taxation on Ukrainian operations is assessed based on the statutory rate of 25%.
** An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated income statement are attributable to the following items for the year ended 31 December 2009:

	31 December 2008	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2009
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	51,155	(6,555)	14	(1,782)	42,832
Property, plant and equipment	16,273	30,379	-	1,021	47,673
Intangible assets	396	(294)	-	(26)	76
Inventories of goods for resale	14,832	21,156	641	586	37,215
Accounts receivable	36,896	(24,773)	13,100	(2,780)	22,443
Accounts payable	10,810	56,346	1,020	2,407	70,583
Other	11,550	(636)	110	(400)	10,624
Gross deferred tax asset	**141,912**	**75,623**	**14,885**	**(974)**	**231,446**
Less offsetting with deferred tax liabilities	(47,354)	(32,306)	-	-	(79,660)
Recognised deferred tax asset	**94,558**	**43,317**	**14,885**	**(974)**	**151,786**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(158,698)	13,139	(18,742)	5,911	(158,390)
Intangible assets	(93,118)	(3,745)	(4,533)	2,655	(98,741)
Inventories of goods for resale	-	(4,025)	-	(197)	(4,222)
Accounts receivable	(4,660)	(8,877)	-	(301)	(13,838)
Accounts payable	(618)	(531)		(8)	(1,157)
Other	(9,421)	(1,761)	(63)	244	(11,001)
Gross deferred tax liability	**(266,515)**	**(5,800)**	**(23,338)**	**8,304**	**(287,349)**
Less offsetting with deferred tax assets	47,354	32,306	-	-	79,660
Recognised deferred tax liability	**(219,161)**	**26,506**	**(23,338)**	**8,304**	**(207,689)**

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Deferred income tax

Deferred tax assets and liabilities and the deferred tax charge in the consolidated income statement are attributable to the following items for the year ended 31 December 2008:

	31 December 2007	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2008
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	16,713	43,968	-	(9,526)	51,155
Property, plant and equipment	7,529	13,606	656	(5,518)	16,273
Intangible assets	53	1,213	-	(870)	396
Inventories of goods for resale	9,206	8,441	-	(2,815)	14,832
Accounts receivable	15,157	29,012	273	(7,546)	36,896
Accounts payable	9,698	3,201	-	(2,089)	10,810
Liability for share based expenses	573	(566)	-	(7)	-
Other	2,615	6,192	5,184	(2,441)	11,550
Gross deferred tax asset	**61,544**	**105,067**	**6,113**	**(30,812)**	**141,912**
Less offsetting with deferred tax liabilities	(29,923)	(26,000)	(477)	9,046	(47,354)
Recognised deferred tax asset	**31,621**	**79,067**	**5,636**	**(21,766)**	**94,558**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(125,212)	46,178	(115,849)	36,185	(158,698)
Intangible assets	(108,299)	21,758	(26,232)	19,655	(93,118)
Accounts receivable	(3,298)	(3,853)	1,718	773	(4,660)
Accounts payable	(3,500)	2,785	(62)	159	(618)
Other	(2,936)	(1,797)	(7,868)	3,180	(9,421)
Gross deferred tax liability	**(243,245)**	**65,071**	**(148,293)**	**59,952**	**(266,515)**
Less offsetting with deferred tax assets	29,923	26,000	477	(9,046)	47,354
Recognised deferred tax liability	**(213,322)**	**91,071**	**(147,816)**	**50,906**	**(219,161)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 570,943 (2008: USD 571,164) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

The current portion of the deferred tax liability amounted to USD 16,730 (31 December 2008: USD 26,369), the current portion of the deferred tax asset amounted to USD 25,280 (31 December 2008: USD 32,650).

Management believes that the future taxable profits in tax jurisdictions that suffered a loss in the current or preceding years will be available to utilise the deferred tax asset of USD 42,832 recognised at 31 December 2009 for the carryforward of unused tax losses (31 December 2008: USD 51,155). Unused tax losses are available for carry forward for a period of 10 years.

30 FINANCIAL RISKS MANAGEMENT

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical and liquidity risks), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk management is carried out by a central treasury department (Group Treasury). Group Treasury monitors and measures financial risks and undertakes steps to limit their influence on the Group's performance. In this connection the Group uses certain derivative financial instruments to mitigate financial risk exposures. These instruments are intended to cap foreign currency and interest rate risks associated with the most significant long-term borrowings.

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from currency exposure with respect to the US Dollar borrowings. From an operational perspective the Group does not have any substantial currency exposures due to the nature of its operations having all revenues and expenses fixed in the local currency (RUR). All other transactions in foreign currency except for financing arrangements are insignificant.

The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 20). In March 2009 as a part of FX risk mitigation policy the Group started using USD/RUB call spreads with leading banking institutions to hedge its short-term cash flows exposed to foreign currency risk. The effect on the consolidated financial statements at 31 December 2009 was immaterial.

As a part of its currency risk mitigation policy the Group attracts new loans and refinances existing ones primarily in the local currency (RUR).

At 31 December 2009, if the Russian Rouble had weakened/strengthened by 20% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 166,725 (31 December 2008: USD 231,350) lower/higher as a result of foreign exchange losses/gains on USD denominated borrowings and USD 13,614 lower/higher (31 December 2008: USD 623 higher/lower) as a result of foreign exchange losses/gains on share-based payments liability and cash and cash equivalents.

Interest rates risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The syndicated loan for USD 1,100,000 was hedged against interest rate risk in 2008 and 2009 (Note 20). The Group regarded the interest rate swaps initiated in 2008 and in 2009 as a hedging instruments and applied hedge accounting (Note 18). The fair value of the interest rate swap of USD 10,108 was recorded through equity.

If LIBOR had been 200 basis points lower/higher in 2009 with all other variables held constant, post-tax profit for the year would have been USD 16,288 (2008: USD 16,532) higher/lower without taking into account effect of interest rate hedge.

(b) Credit risk

Financial assets, which are potentially subject to credit risk, consist principally of cash and cash equivalents held in banks, trade and other receivables (Note 9 and Note 16). Due to the nature of its main activities (retail sales to individual customers) the Group has no significant concentration of credit risk. Cash is placed in financial institutions which are considered at the time of deposit to have minimal risk of default. The Group has policies in place to ensure that in case of credit sales of products and services to wholesale customers only those with an appropriate credit history are selected. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded. In accordance with the Group treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant.

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the Group Treasury.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and as at the balance sheet date at spot foreign exchange rates:

Year ended 31 December 2009	During 1 year	In 1 to 3 years
Borrowings	1,761,560	312,283
Trade payables	1,556,325	-
Gross finance lease liabilities	1,950	4,586
Derivative financial liabilities	10,108	-
Other finance liabilities	284,498	-
	3,614,441	**316,869**

Year ended 31 December 2008	During 1 year	In 1 to 3 years
Borrowings	593,485	1,643,696
Trade payables	1,175,279	-
Gross finance lease liabilities	2,197	1,843
Derivative financial liabilities	18,180	-
Other finance liabilities	258,456	-
	2,047,597	**1,645,539**

At 31 December 2009 the Group has negative working capital of USD 2,335,950 (31 December 2008: USD 1,031,800) including short-term borrowings of USD 1,656,622 (31 December 2008: USD 578,433).

At 31 December 2009 the Group had available bank credit lines of USD 555,170 (31 December 2008: USD 367,383).

At 31 December 2009 the Group short-term borrowings mainly comprised of a syndicated loan of USD 1,093,135 . In January 2010 X5 Retail Group and Sberbank finalized documentation with respect to a "forward-start" committed credit facility for refinancing of USD 1,100,000 syndicated loan with December 2010 maturity.

Sberbank's facility takes the form of a 5-year ruble-denominated committed credit line of up to USD 1,100,000 in RUR equivalent (based on the exchange rate of the Central Bank of Russia as at draw-down date). The credit facility can be utilized in several tranches with varying maturities. Interest rate will be based on the maturity of each particular tranche.

Although at 31 December 2009 syndicated loan is presented as short-term it will be replaced by the long term committed facility provided by Sberbank. No liquidity risk exists at 31 December 2009 as the Group has a guaranteed source of refinancing.

Management regularly monitors the Group's operating cash flows and available credit lines to ensure that these are adequate to meet the Group's ongoing obligations and its expansion programs. Part of the short term liquidity risk is seasonal, with the highest peak in the 1st quarter and strong cash generation in 4th quarter, therefore the Group negotiates the maturity of short-term credit lines for the 4th quarter, when the free cash flow allows for the repayment of short-term debts. Part of the existing lines in the local currency (RUR) are provided on a rolling basis which is closely monitored by detailed cash flow forecasts and managed by the Group Treasury.

The Group's capital expenditure program is highly discretionary. The Group optimizes its cash outflows by managing the speed of execution of current capex projects and by delaying future capital extensive programs, if required.

The Group is carefully monitoring its liquidity profile by maximizing the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines. The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management considers that the available credit lines and expected cash flows are sufficient to finance the Group's current operations.

31 OPERATING ENVIRONMENT OF THE GROUP

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 30.24 at 31 December 2009.

A number of measures have been undertaken to support the Russian financial markets, including the following:

In October 2008 the CBRF reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the state deposit insurance scheme to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF-imposed moratorium on payments.

The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

Impact of the ongoing global financial and economic crisis. The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

32 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages total equity attributable to equity holders recognized under IFRS requirements.

Simultaneously, the Group maintains optimal capital structure by tracing certain capital requirements based on ratios. The ratios are maximum level of Debt/EBITDA, minimum level of EBITDA/Interest expense, minimum level of EBITDAR/Fixed costs and maximum level of capital expenditure. These ratios are included as covenants into loan agreements (Note 20). The Group is in compliance with externally imposed capital requirements.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values.

Liabilities carried at amortised cost. The fair value of bonds is based on quoted market prices. Fair values of other liabilities are determined using valuation techniques. Carrying amounts of trade and other payables approximate fair values.

The fair value of X5 Finance bonds traded on the MICEX is determined based on active market quotations and amounted to USD 586,450 at 31 December 2009

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

(31 December 2008: 261,052). The carrying value of these bonds amounted to USD 558,899 at 31 December 2009 (31 December 2008: 304,986) (Note 20). The fair value of long-term borrowings amounted to USD 327,241 (31 December 2008: 1,210,484). Fair value was calculated by estimating future cash flows in nominal terms and discounting them at appropriate market rate. Market rates used for calculation vary from 9.4% to 10.2% depending on the amount and currency of particular loan. The fair value of short-term borrowings was not materially different from their carrying amounts.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value is determined based on quoted market prices or valuation techniques (Note 18).

34 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2009, the Group operated 802 stores through rented premises (31 December 2008: 589). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable rent payments. Substantially all of the lease agreements have an option that enables the Group to cancel the agreement with the mutual concord of the parties involved.

The present value of future minimum lease payments and their nominal amounts under non-cancellable operating leases of property are as follows (net of VAT):

	31 December 2009 (present value)	31 December 2008 (present value)	31 December 2009 (nominal value)	31 December 2008 (nominal value)
During 1 year	199,983	131,800	215,389	144,380
In 2 to 5 years	351,996	238,369	525,354	368,568
Thereafter	139,307	92,559	474,981	310,358
	691,286	**462,728**	**1,215,724**	**823,306**

A discount rate applied in determining the present value of future minimum lease payments is based on the Group weighted average cost of capital (12-16%).

Capital expenditure commitments

At 31 December 2009 the Group contracted for capital expenditure of USD 100,068 (net of VAT), (2008: USD 173,343).

Legal contingencies

In the normal course of business the Group is involved in periodic legal cases. Management does not anticipate any material negative impact on the resolution of these cases.

Taxation environment

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

Russian transfer pricing legislation introduced on 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

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

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

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management estimates that possible exposure in relation to profit tax and other non-profit tax risks such as inter-company transactions, VAT and employee related taxes, that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times the additional accrued liabilities and provisions reflected on the statement of financial position at that date (and potentially in excess of the Group's profit before tax for the year). This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability. At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 147,087 at 31 December 2009 (31 December 2008: USD 110,619) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Notes to Consolidated Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Balance at 1 January 2008	**76,708**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	57,694
Translation movement	(23,783)
Balance at 31 December 2008	**110,619**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	41,253
Translation movement	(4,785)
Balance at 31 December 2009	**147,087**

X5 Retail Group
Company's Statement of Financial Position at 31 December 2009

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

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Financial assets	36	2,474,217	3,138,016
		2,474,217	3,138,016
Current assets			
Financial assets	36	770,833	-
Deferred tax assets		-	14,980
Amounts due from subsidiaries		349,713	130,871
Accounts receivable		988	16
Cash		1,513	226
		1,123,047	146,093
Total assets		**3,597,264**	**3,284,109**
EQUITY AND LIABILITIES			
Paid up and called up share capital	37	97,400	95,764
Share premium account		1,936,452	1,993,385
Other reserves		111,480	(34,906)
Profit of the year		92,757	149,664
Currency translation reserve		(35,394)	(36,537)
Total equity		**2,202,695**	**2,167,370**
Non-current liabilities			
Bank loans	38	-	1,087,617
Share based payment liability	40	25,986	-
		25,986	1,087,617
Current liabilities			
Bank loans	38	1,093,135	-
Amounts due to subsidiaries		189,500	-
Financial liabilities	39	10,108	18,180
Accrued expenses	39	10,415	10,942
Share based payment liability	40	59,559	-
Corporate income tax	42	5,866	-
		1,368,583	29,122
Total equity and liabilities		**3,597,264**	**3,284,109**

X5 Retail Group

Company's Income Statement for the year ended 31 December 2009

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

	Note	31 December 2009	31 December 2008
Other income and expenses after tax	41	92,757	149,664
Profit after taxation		**92,757**	**149,664**

35 ACCOUNTING PRINCIPLES

General
The Company was incorporated as a limited liability Company under the laws of The Netherlands on 13 August 1975 and has its statutory seat in Amsterdam. The Company is publicly owned. The principal activity of the Company is to act as a retail chain.

Basis of presentation
The Company financial statements of X5 Retail Group N.V. have been prepared in accordance with Part 9, of Book 2 of the Dutch Civil Code.

Accounting principles
The statutory financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Netherlands, in accordance with Part 9 of Book 2 of the Dutch Civil Code. The Dutch GAAP accounting principles applied for the entity accounts are similar to those used in the IFRS Consolidated Financial Statements (refer to note 2 to the consolidated financial statements), unless stated otherwise below. The consolidated accounts of companies publicly listed in the European Union must be prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and adopted by the European Commission. Consequently the consolidated financial statements of the Group for the year ending 31 December 2009 have been prepared accordingly.

In accordance with Section 362 paragraph 7, Part 9 of Book 2 of the Dutch Civil Code, the presentation currency in the annual report is USD as a result of the international bifurcation of the Company. As the Company exploits Russian grocery stores in three formats (hypermarkets, supermarkets and discounters), the functional currency of the Company is the Russian Rouble as this is the currency of its primarily business environment and reflects the economic reality. Reference is made to section 2.5 (a) of the notes to the consolidated financial statements with regard to the accounting policy in regard of the translation from functional currency to presentation currency.

Financial assets and Liabilities
Due to the international structure of the Company, the participations in Group companies are valued at historical cost. Provisions for impairment are taken into account when necessary.

Derivative financial assets and liabilities are valued at cost or at fair value. Changes in the value of these derivative financial instruments are recognized in the income statement upon transfer of the instrument to another party or if the instrument is impaired.

Deferred income tax asset
Deferred income tax asset is valued at nominal value and recognized as a part of current/non-current assets/liabilities based on estimated recoverability timing.

Notes to Company's Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

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

36 FINANCIAL ASSETS

	31 December 2009	31 December 2008
a. Movements in the interests in Group companies:		
Opening balance	1,547,170	1,635,439
Acquisitions / capital contribution	209,079	210,342
Impairment of investments	-	(29,519)
Other movements/foreign exchange differences	(50,418)	(269,092)
Closing balance	**1,705,831**	**1,547,170**

A complete list of Group companies has been disclosed in the consolidated financial statements. Acquisitions in 2009 are mainly related to OOO "Firma Omega-97" (refer to note 7 of the consolidated financial statements).

	31 December 2009	31 December 2008
b. Movements in the loans to Group companies:		
Opening balance	1,590,846	649,865
Disbursement / repayments	(55,199)	940,981
Other movements/foreign exchange differences	3,572	-
Closing balance	**1,539,219**	**1,590,846**
Total Financial assets	**3,245,050**	**3,138,016**

Long-term loans provided to following Group companies:	Currency	Date of maturity
Speak Global Ltd.	USD	March 2010 (extended until December 2012)
Alpegru Ltd.	USD	December 2012
Grasswell Ltd.	USD	December 2010
Grasswell Ltd.	USD	December 2012
Grasswell Ltd.	RR	June 2011
CJSC Tradehouse Perekrestok	USD	December 2011

The loans have not been secured and attract up to 10.5 % interest per annum. In the loans receivable there is an amount to Grasswell Ltd denominated in RUR, the amount of this loan is RUR 3,085,408,000. Furthermore an amount of USD 770,833 is classified as short term.

37 SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other Reserves	Profit/(Loss)	Translation adjustment	Total
Balance as per 1 January 2008	**79,226**	**1,217,341**	**1,985**	**(31,990)**	**(13,485)**	**1,253,077**
Paid in	21,648	1,207,967	-	-	-	1,229,615
Transfer	-	-	(31,990)	31,990	-	-
Currency translation adj.	(5,110)	(431,923)	(4,901)	-	(23,052)	(464,986)
Result for the period	-	-	-	149,664	-	149,664
Balance as per 31 December 2008	**95,764**	**1,993,385**	**(34,906)**	**149,664**	**(36,537)**	**2,167,370**
Paid in	-	-	-	-	-	-
Transfer	-	-	149,664	(149,664)	-	-
Currency translation	1,636	(56,933)	(3,278)	-	1,143	(57,432)
Result for the period	-	-	-	92,757	-	92,757
Balance as per 31 December 2009	**97,400**	**1,936,452**	**111,480**	**92,757**	**(35,394)**	**2,202,695**

Notes to Company's Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Statutory undistributable reserve is maintained for currency translation adjustment recorded as the result of translation between functional and presentation currencies.

A reconciliation of the differences between the Company and consolidated equity and profit/loss in the financial year is as follows:

	31 December 2009	31 December 2008
Equity per Company financial statements	2,202,695	2,167,370
Accumulated result of Group	(1,842,251)	445,700
Acquisition of treasury shares	(14,150)	(14,150)
Hedging instruments	(10,108)	(18,180)
Results from subsidiaries for the year	72,594	(2,287,951)
Sale of treasury shares	144,217	144,217
Currency exchange differences	(219,682)	(237,722)
Equity change as an effect of reverse acquisition transaction	1,439,149	1,439,149
Equity per consolidated financial statements	**1,772,464**	**1,638,433**

Difference in profit/loss	31 December 2009	31 December 2008
Profit according to Company annual accounts	92,757	149,664
Profit/(Loss) from subsidiaries for the year	72,594	(2,287,951)
Profit per consolidated financial statements	**165,351**	**(2,138,287)**

Share capital issued

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

As at 31 December 2009, the issued and paid-up share capital amounts to EUR 67,893,218 and consists of 67,893,218 shares of EUR 1 each (2008: 67,893,218). This has been recalculated into USD with an exchange rate of 1 EUR = 1.4346 USD (2008: 1 EUR = 1.5717 USD).

38 BANK LOANS

Movement in the bank loans have been as follows:

	31 December 2009	31 December 2008
Opening balance	1,087,617	1,083,226
Finance costs	5,518	4,391
Closing balance	**1,093,135**	**1,087,617**

The margin for the first year was 2.25% per annum over USD LIBOR. In December 2008 the margin changed from 2.25% to 1.5% in accordance with an agreed the Net Debt/EBITDA grid. USD LIBOR is fixed from a one to six month period (Note 20) .

In November 2009 the Group and Sberbank reached agreement on a "forward-start" committed credit facility for refinancing of USD 1,100,000 syndicated loan with December 2010 maturity. In January 2010 the Group and Sberbank finalized documentation of this credit facility. Refinancing will be in the form of five-year rouble denominated committed credit facility up to USD 1,100,000 (in RUR equivalent, based on the exchange rate of the CBR as at the draw down date). The credit facility may be utilized in several tranches with varying maturities.

39 CURRENT LIABILITIES

The current liabilities contain accrued expenses and non-income tax payable as well as derivatives. Refer to note 18 of the consolidated financial statements.

Notes to Company's Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

40 SHARE BASED PAYMENT LIABILITY

In compliance with changes in the Dutch Guidelines for annual reporting on share-based payments, the company modified presentation for share-based payments per 31 December 2009. X5 Retail Group N.V. accounts for a receivable insofar the options granted to employees of the Group are recharged. For employees of the company an expense is recorded in the profit and loss account. The receivable or expense is accounted for at the fair value determined in accordance with the policy on share-based payments as included in the consolidated financial statements, including the related liability for cash settled plans or as equity increase for equity settled plans.

If this guidance was applied for 2008, comparative information would be as follows.

	31 December 2008	31 December 2009
Share based payments liability	(37,921)	(85,545)
Accounts receivable	37,204	94,012
Profit & loss	236	1,378
Retained earnings	481	717

41 OTHER INCOME AND EXPENSES AFTER TAX

	31 December 2009	31 December 2008
Interest income from subsidiaries	152,057	116,020
Interest expenses	(43,508)	(53,966)
General and administrative expenses	(12,101)	(21,396)
Result of financial instruments	7,201	(21,490)
Share based payment	(2,096)	-
Currency exchange rate differences	10,670	150,037
Income tax charge	(19,466)	9,977
Provision for impairment of investments	-	(29,519)
	92,757	**149,664**

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation PricewaterhouseCoopers Accountants N.V. amounted to USD 179 (2007: USD 223).

42 INCOME TAX EXPENSE

	31 December 2009	31 December 2008
Operating profit	92,757	149,664
Deferred income tax credit	(13,874)	(9,977)
Current income tax	(5,592)	
Effective tax rate	21%	(7)%
Applicable tax rate	25.5%	25.5%

The effective tax rate differs from the applicable tax rate due to tax losses for which no deferred income tax assets was recognized and currency exchange rate gains and share based expenses that are not taxable.

43 DIRECTORS

The Company has a Management Board and a Supervisory Board. The remuneration of all Board members paid through the Company and through Group companies is disclosed as follows below. Further reference is made to Notes 27 and 28 in the consolidated financial statements.

Notes to Company's Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

Supervisory Board

Remuneration of the Supervisory Board members consists of cash salary which accrued evenly throughout the year in proportion to the period of service. Two members of the Supervisory Board are participating in the Share option programme of the Group. The number of options granted and outstanding to the members of the Supervisory Board is shown below. For calculation of intrinsic value refer to Note 27.

The Supervisory Board members received a remuneration of:

	Base salary 2009	Bonus 2009	Option expenses	Other	
H. Defforey	167	-			
M. Fridman	70	-			
D. Gould	104	-			
A. Savin	50	-			Resigned 17 September 2009
C. Criado-Pérez Trefault	167	-	92	200	Resigned 1 January 2010
V. Ashurkov	104	-			
A. Tynkovan	167	-			
S. DuCharme	167	-			
	997	**-**	**92**	**200**	

Number of Share options issued to Supervisory Board members:

	No. of options granted in 2009	No. of options granted prior 2009	No. of options exercised in 2009/2008	Cancellation	No. of options outstanding as at 31.12.2009
H. Defforey	70,000	72,500	30,000	-	112,500
S.E. DuCharme	32,500	-	-	-	32,500
C. Criado-Pérez Trefault	21,250	41,250	20,000	21,250	21,250
	123,750	**113,750**	**50,000**	**21,250**	**166,250**

Management Board

Remuneration of the Management Board members consists of cash salary and annual bonus. All members of the Management Board are participating in the Share option programme of the Group. The number of options granted and outstanding to the members of the Management Board is shown below. For calculation of intrinsic value refer to Note 27.

	Base salary 2009	Bonus 2009
L. Khasis	2,122	1,456
E. Kornilov	866	520
F. Lhoëst	279	84
	3,267	**2,060**

Number of Share options issued to Management Board members:

	No. of options granted in 2009	No. of options granted prior 2009	No. of options exercised in 2009/2008	No. of options outstanding as at 31.12.2009
L. Khasis	860,625	2,480,625	810,000	2,531,250
E. Kornilov	220,000	250,000	-	470,000
F.M. Lhoëst	20,000	-	-	20,000
	1,100,625	**2,730,625**	**810,000**	**3,021,250**

Company standalone financial statements include salaries, and bonuses payable to statutory directors of USD 423 (2007: 357).

Notes to Company's Financial Statements for the year ended 31 December 2009 (expressed in thousands of US Dollars, unless otherwise stated)

44 STAFF NUMBERS AND EMPLOYMENT COSTS

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year, other than those for the Management and Supervisory Board.

45 COMMITMENTS AND CONTINGENCIES

Reference is made to the commitments and contingencies as disclosed in Note 34 in the consolidated financial statements. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Group has the following guarantees issued under obligations of its subsidiaries:

	31 December 2009	31 December 2008
Guarantee issued to Commerzbank	-	100,000
Guarantee issued to Raiffeisenbank	-	100,000
Irrevocable offer to holders of X5 Finance bonds	562,091	306,327
Irrevocable offer to holders of Pyaterochka Finance bonds	881	907

46 RELATED PARTY TRANSACTION

Refer to Note 8 of the consolidated financial statements, all Group companies are also considered related parties.

Statutory Director's compensation
Statutory director's compensation is disclosed in Note 43.

Loans to Group companies
For loans issued to and interest income from Group companies refer to Note 36.

Amsterdam, 08 April 2010

Managing Directors:	**Supervisory Directors:**
L. Khasis	H. Defforey
	M. Fridman
	D. Gould
E. Kornilov	V. Ashurkov
	A. Tynkovan
	S. DuCharme
F. Lhoëst	C.P. Couvreux

47 SUBSEQUENT EVENTS

In January 2010 X5 Retail Group and Sberbank finalized documentation of a credit facility. Refinancing will be in the form of 5-year rouble denominated committed credit facility up to USD 1,100,000 (in RUR equivalent, based on the exchange rate of the CBR as at the draw down date). The credit facility may be utilized in several tranches with varying maturities.

In March 2010 X5 Retail Group facilitated the deposit of 1,746,505 ordinary shares into Global Depositary Receipts ("GDR") facility. These shares were issued in 2008 as part of the consideration paid for the Karusel hypermarket chain. The increase in the size of listing on the Main Market of the London Stock Exchange will not affect the number of outstanding shares, which will remain unchanged at 67,893,218, while the number of GDRs will increase by 6,986,020.

OTHER INFORMATION

Auditor's report
Auditor's report is included on the page 145.

Statutory profit appropriation
In Article 28 of the company statutory regulations the following has been stated concerning the appropriation of result.

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

Proposed appropriation of profit	2009
Profit for the year added to other reserves	92,757

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

For subsequent events refer to Note 47.

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

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2009 of X5 Retail Group N.V., Amsterdam as set out on pages 79 until 143. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the statement of comprehensive income, the consolidated changes in equity and consolidated cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2009, the company income statement for the year then ended and the notes.

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

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

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

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

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements, set out in pages 79 until 134, give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements, set out in pages 135 until 143, give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

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

Amsterdam, 8 April 2010
PricewaterhouseCoopers Accountants N.V.
P.C. Dams RA