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 2010

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X5 Retail Group
Consolidated Statement of Financial Position at 31 December 2010

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

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	10	3,602,412	2,990,086
Investment property	11	145,643	133,425
Goodwill	12	1,999,269	777,961
Intangible assets	13	718,854	496,111
Prepaid leases	10	86,419	84,805
Investment in associates		-	5,609
Other non-current assets		7,457	1,304
Deferred tax assets	29	131,312	146,359
		6,691,366	4,635,660
Current assets			
Inventories of goods for resale	14	1,015,742	612,093
Indemnification asset	7	43,737	–
Loans originated		1,314	2,848
Current portion of non-current prepaid lease	10	13,443	13,705
Trade and other accounts receivable	16	381,849	311,657
Current income tax receivable		76,149	18,497
VAT and other taxes recoverable	17	262,828	174,762
Cash and cash equivalents	9	270,762	411,681
		2,065,824	1,545,243
Total assets		**8,757,190**	**6,180,903**

X5 Retail Group
Consolidated Statement
of Financial Position at 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	21	93,712	93,712
Share premium		2,049,144	2,049,144
Cumulative translation reserve		(574,268)	(559,576)
Retained earnings		470,980	199,292
Hedging reserve	18	-	(10,108)
Share based payment reserve	28	5,965	-
		2,045,533	**1,772,464**
Non-controlling interest	7	**1,501**	**-**
Total equity		**2,047,034**	**1,772,464**
Non-current liabilities			
Long-term borrowings	20	3,176,792	287,378
Long-term finance lease payable		2,737	4,586
Deferred tax liabilities	29	261,374	207,985
Long-term deferred revenue		135	1,839
Share-based payments liability	28	13,157	25,986
Other non-current liabilities		1,339	-
		3,455,534	527,774
Current liabilities			
Trade accounts payable		1,851,454	1,556,325
Short-term borrowings	20	508,004	1,656,622
Share-based payments liability	28	76,141	59,559
Derivative financial liabilities	18	-	10,108
Short-term finance lease payables		1,680	1,950
Interest accrued		16,678	8,863
Short-term deferred revenue		13,165	18,979
Current income tax payable		47,249	33,790
Provisions and other liabilities	19	740,251	534,469
		3,254,622	3,880,665
Total liabilities		**6,710,156**	**4,408,439**
Total equity and liabilities		**8,757,190**	**6,180,903**

X5 Retail Group
Consolidated Income Statement for the year ended 31 December 2010

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

	Note	31 December 2010	31 December 2009
Revenue	23	11,280,492	8,717,399
Cost of sales	24	(8,651,734)	(6,609,522)
Gross profit		**2,628,758**	**2,107,877**
Selling, general and administrative expenses	24	(2,224,355)	(1,740,604)
Lease/sublease and other income	25	140,666	100,496
Operating profit		**545,069**	**467,769**
Finance costs	26	(147,903)	(157,964)
Finance income	26	1,690	3,817
Share of profit/(loss) of associates		438	(3,964)
Net foreign exchange loss		(12,982)	(45,692)
Profit before tax		**386,312**	**263,966**
Income tax expense	29	(115,066)	(98,615)
Profit for the year		**271,246**	**165,351**
Profit for the year attributable to:			
Equity holders of the parent		271,688	165,351
Non-controlling interest		(442)	-
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	22	4.01	2.44
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	22	3.99	2.43

X5 Retail Group
Consolidated Statement of Comprehensive income for the year ended 31 December 2010

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

	31 December 2010	31 December 2009
Profit for the year	**271,246**	**165,351**
Other comprehensive income/(loss)		
Exchange differences on translation from functional to presentation currency	(14,692)	(39,392)
Changes in fair value of financial instruments	10,108	8,072
Other comprehensive loss	**(4,584)**	**(31,320)**
Total comprehensive income for the year	**266,662**	**134,031**
Total comprehensive income for the year attributable to:		
Equity holders of the parent	**266,662**	**134,031**

X5 Retail Group
Consolidated Statement of Cash Flows for the year ended 31 December 2010

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

	Note	31 December 2010	31 December 2009
Profit/(Loss) before tax		**386,312**	**263,966**
Adjustments for:			
Depreciation, amortisation and impairment	24	298,523	268,243
Loss on disposal of property, plant and equipment		16,180	3,113
Finance costs, net	26	146,213	154,147
Impairment of trade and other accounts receivable	24	11,447	12,955
Share-based options expense	28	63,166	59,316
Amortisation of deferred expenses		14,652	10,226
Net foreign exchange loss		12,982	45,692
(Income)/Loss from associate		(438)	3,964
Other non-cash items	34, 10	(48,846)	13,877
Net cash from operating activities before changes in working capital		**900,191**	**835,499**
Increase in trade and other accounts receivable		(167,413)	(91,463)
Increase in inventories of goods for resale		(277,351)	(128,095)
Increase in trade payable		177,695	343,752
Increase in other accounts payable		16,133	41,844
Net cash generated from operations		**649,255**	**1,001,537**
Interest paid		(132,110)	(156,914)
Interest received		2,028	4,449
Income tax paid		(141,094)	(115,390)
Net cash from operating activities		**378,079**	**733,682**

X5 Retail Group
Consolidated Statement of Cash Flows
for the year ended 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2010	31 December 2009
Cash flows from investing activities			
Purchase of property, plant and equipment		(366,160)	(175,317)
Purchase of investment property		-	(8,574)
Non-current prepaid lease		(17,324)	(4,555)
Acquisition of subsidiaries	7	(1,140,629)	(229,367)
Proceeds from sale of property, plant and equipment		5,319	3,290
Purchase of intangible assets		(29,387)	(19,321)
Net cash used in investing activities		**(1,548,181)**	**(433,844)**
Cash flows from financing activities			
Proceeds from short-term loans		386,227	259,934
Repayment of short-term loans		(921,994)	(656,357)
Proceeds from long-term loans		1,609,419	248,733
Repayment of long-term loans		(3,899)	(40,074)
Acquisition of derivative financial assets		-	(2,512)
Principal payments on finance lease obligations		(3,717)	(4,018)
Net cash generated from/(used in) from financing activities		**1,066,036**	**(194,294)**
Effect of exchange rate changes on cash and cash equivalents		(36,853)	29,300
Net (decrease)/increase in cash and cash equivalents		**(140,919)**	**134,844**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		411,681	276,837
Net (decrease)/increase in cash and cash equivalents		(140,919)	134,844
Cash and cash equivalents at the end of the year		**270,762**	**411,681**

X5 Retail Group
Consolidated Statement of Changes In Equity for the year ended 31 December 2010

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

	Attributable to equity holders of the parent								Non-controlling interest	Total
	Number of shares	Share capital	Share premium	Hedging reserve	Share based payment reserve	Cumulative translation reserve	Retained earnings	Total shareholders' equity		
Balance as at 1 January 2009	**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**
Other comprehensive income/(loss) for the year	-	-	-	10,108	-	(14,692)	-	(4,584)	-	(4,584)
Profit for the year	-	-	-	-	-	-	271,688	271,688	(442)	271,246
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**10,108**	**-**	**(14,692)**	**271,688**	**267,104**	**(442)**	**266,662**
Acquisition of subsidiaries (Note 7)	-	-	-	-	-	-	-	-	1,943	1,943
Share based compensation (Note 28)	-	-	-	-	5,965	-	-	5,965		5,965
Balance as at 31 December 2010	**67,813,947**	**93,712**	**2,049,144**	**-**	**5,965**	**(574,268)**	**470,980**	**2,045,533**	**1,501**	**2,047,034**

X5 Retail Group
Notes to Consolidated Financial Statements for the year ended 31 December 2010

(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 2010 the Group operated a retail chain of 2,469 soft-discount, supermarket, hypermarket and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Pyaterochka-Maxi" and "Kopeyka" 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 2009: 1,372 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel"), with the following number of stores:

	31 December 2010	31 December 2009
Supermarket		
Central	172	152
North-West	33	33
Sredne-Volzhsky	26	22
Privolzhsky	15	15
South	14	14
Volgo-Vyatsky	19	19
Central-Chernozem	9	9
Ukraine	6	6
Ural	7	5
	301	**275**

X5 Retail Group
Notes to Consolidated Financial Statements
for the year ended 31 December 2010
(expressed in thousands of US Dollars,
unless otherwise stated)

	31 December 2010	31 December 2009
Discounter		
Central	567	433
North-West	358	306
Ural	181	152
Volgo-Vyatsky	64	39
South	67	32
Sredne-Volzhsky	58	28
Privolzhsky	55	25
Central-Chernozem	42	24
	1,392	**1,039**
Hypermarket		
North-West	17	17
Central	14	13
Privolzhsky	7	6
Volgo-Vyatsky	9	6
Sredne-Volzhsky	7	5
South	6	4
Central-Chernozem	6	4
Ural	5	3
	71	**58**
Convenience stores	45	-
Kopeyka	660	-
Total stores	**2,469**	**1,372**

In addition as at 31 December 2010, the Group's franchisees operated 665 stores (31 December 2009: 620 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As at 31 December 2010 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 2010 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 (Note 21). As at 31 December 2010 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 2010 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.

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 acquisition 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, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. However, when a business combination is achieved in stages by successive share purchases, the date of exchange is the date of each exchange transaction; whereas the acquisition date is the date on which acquirer obtains control of the subsidiary.

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

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in consolidated income statement, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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.

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

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"). Currently the Group's Ukraine business unit's contribution to the financial results of the Group is immaterial. 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 other comprehensive income 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.

At 31 December 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 30.4769 (31 December 2009: USD 1 = RR 30.2442). The average rate for year ended 31 December 2010 was USD 1 = RR 30.3692 (12 months 2009: USD 1 = RR 31.7231).

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 owned shopping centres that are leased to third party retailers as investment property, unless they represents insignificant portions of the property and are 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 consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of the net assets 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	5-20 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, software, 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 other comprehensive icome.

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

Employee stock option program

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 option 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.

Employee stock plan

The Group receives services from employees as consideration for conditional rights to receive GDRs after vesting period of 3 years and fulfilment of certain predetermined performance conditions.

Share-based payment transactions are accounted as an equity-settled transaction.

The fair value of the employee services received in exchange for the grant of the conditional rights is recognised as an expense over the vesting period and measured by reference to the market price of the GDRs which is determined at grant date.

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.

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 contractual term. 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 has a loyalty card scheme. 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 October 2009 the Group has acquired 51% of voting shares of Epylon Limited. Epylon Limited is the owner of the internet stores ("Internet Retail"). In December 2009 the Group acquired 100% of the business and assets of Paterson, a non-public supermarket chain.

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

During the reporting period provisional values of Internet Retail and Paterson were updated based on final fair value estimates. As a consequence of the adjustment the previously reported Consolidated Statement of Financial Position as at 31 December 2009 was changed to reflect the updated provisional values from the date of acquisition (Note 7).

2.30. Indemnification asset

The indemnification asset equivalent to the fair value of the indemnified liabilities is deducted from consideration transferred for the business combination if the selling shareholders of acquiree agreed to compensate possible claims or contingencies. Subsequent measurement of the indemnification asset and contingent liability will have no net impact on future earnings, unless the indemnification asset becomes impaired.

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 2010 and ended 31 December 2009.

Provisional fair values of net assets of acquired businesses. During the reporting period the Group made a several acquisitions (Note 7) and applied a number of estimates to define the provisional fair value of acquired businesses' 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. The Group performs assets impairment testing (Note 10). 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 option 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 2010:

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). 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 allows 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 has 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 are accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer has to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date is 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. Amended standard did not have material effect on the Group consolidated financial statements except disclosed in the Note 7.

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 requires 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 has to be measured at its fair value. Amended standard did not have effect on the Group 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.

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 are recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 does not have effect 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 does not have effect on the Group's 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 amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). 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. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments do not have effect on the Group's consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2011 and have not been early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard 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.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). 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 profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Group's financial statements.

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

5. SEGMENT REPORTING

The Group 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.

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.

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The segment information for the year ended 31 December 2010 is as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Retail sales	11,263,827	8,683,821
Other revenue	16,665	33,578
Revenue	**11,280,492**	**8,717,399**
EBITDA	**843,592**	**736,012**
Capital expenditure	405,599	169,597
Total assets	**8,757,190**	**6,180,903**
Total liabilities	**6,710,156**	**4,408,439**

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 2010	Year ended 31 December 2009
EBITDA	843,592	736,012
Depreciation and amortization	(298,523)	(268,243)
Operating profit	**545,069**	**467,769**
Finance cost, net	(146,213)	(154,147)
Net foreign exchange result	(12,982)	(45,692)
Share of profit/(loss) of associates	438	(3,964)
Profit before income tax	**386,312**	**263,966**
Income tax expense	(115,066)	(98,615)
Profit for the year	**271,246**	**165,351**

6. SUBSIDIARIES

Details of the Company's significant subsidiaries at 31 December 2010 and 31 December 2009 are as follows:

			Ownership (%)	
Company	**Country**	**Nature of operations**	**31 December 2010**	**31 December 2009**
Agroaspekt OOO	Russia	Retailing	100	100
Agrotorg OOO	Russia	Retailing	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
GSWL Finance Ltd.	Cyprus	Financing	100	100
Kama Retail OOO	Russia	Retailing	100	100
Key Retail Technologies Ltd.	Gibraltar	Holding company	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	Holding company	100	100
TH Perekrestok ZAO	Russia	Retailing	100	100
Ural Retail OOO	Russia	Retailing	100	100
Ural-Agro-Torg OOO	Russia	Retailing	100	100
X5 Finance OOO	Russia	Bond issuer	100	100
X5 Nedvizhimost ZAO	Russia	Real estate	100	100
X5 Retail Group Ukraine ZAT	Ukraine	Retailing	100	100
TD Kopeyka OAO	Russia	Holding Company	100	-
Kopeyka-Moscow OOO	Russia	Retailing	100	-
TF Samara-Product OOO	Russia	Retailing	100	-
Kopeyka-Voronezh OOO	Russia	Retailing	100	-
Kopeyka-Privolzhye OOO	Russia	Retailing	100	-

7. ACQUISITION OF SUBSIDIARIES

Kopeyka

In December 2010 the Group acquired 100% of the business and assets of Kopeyka, a Russian retail chain which operates soft discounter stores in the European part of Russia with more than 50% of its business in Moscow and the Moscow region.

In the year ended 31 December 2010 the acquired business of Kopeyka contributed revenue of USD 217,504 and a net loss of USD 373 from the date of acquisition. If the acquisition of Kopeyka had occurred on 1 January 2010, the Group's revenue for the year ended 31 December 2010 would have been USD 13,118,063 and the Group's net profit for the year ended 31 December 2010 would have been USD 256,276. Estimates of contribution of revenue and profit to the Group are based on proforma information derived from Kopeyka consolidated financial statements prepared in accordance with IFRS.

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

	Provisional values at the acquisition date
Cash and cash equivalents	59,846
Inventories of goods for resale	121,062
Loans originated	4,195
Trade and other accounts receivable	117,379
Intangible assets (Note 13)	237,238
Property, plant and equipment (Note 10)	459,867
Investment property (Note 11)	16,227
Deferred tax assets (Note 29)	7,628
Short-term borrowings	(98,518)
Trade and other accounts payable	(306,670)
Provisions and liabilities for tax uncertainties (Note 34)	(53,266)
Long-term borrowings	(541,285)
Deferred tax liability (Note 29)	(67,655)
Net liability acquired	(43,952)
Goodwill (Note 12)	1,124,798
Total acquisition cost	**1,080,846**
Net cash outflow arising from the acquisition for the year ended 31 December 2010	**1,090,090**

The Group assigned provisional values to net assets acquired based on estimates of the independent appraiser. 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 1,149,936 compensated by contingent consideration of USD 15,453 to be payable by previous shareholders of Kopeyka and indemnification asset deducted from consideration transferred for the business combination.

The contingent consideration arrangement requires the former owners of the Kopeyka to pay the Group an excess of the net debt over agreed amount. The fair value of the contingent consideration arrangement was estimated based on unaudited financial statements of acquiree.

An indemnification asset of USD 53,636, equivalent to the fair value of the indemnified liability, has been recognised by the Group. The selling shareholders of Kopeyka have contractually agreed to indemnify potential tax and other contingencies that may become payable in respect of the Kopeyka companies, indemnification arrangement is capped to USD 295,306.

Acquisition-related costs recognized as other expense in the consolidated statement of comprehensive income amounted to USD 7,578.

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

Ostrov

In September 2010 the Group acquired 100% of the voting shares of ZAO “Ostrov Invest”, which operates stores in Moscow and the Moscow Region under the Ostrov brand.

In the year ended 31 December 2010 the acquired business of Ostrov contributed revenue of USD 12,602 and a net loss of USD 1,418 from the date of acquisition. If the acquisition of Ostrov had occurred on 1 January 2010, the Group’s revenue for the year ended 31 December 2010 would have been USD 11,365,567 and the Group’s profit for the year ended 31 December 2010 would have been USD 268,032.

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

	Provisional values at the acquisition date
Cash and cash equivalents	900
Inventories of goods for resale	2,733
Loans originated	2
Trade and other accounts receivable	1,331
Intangible assets (Note 13)	7,090
Property, plant and equipment (Note 10)	14,088
Deferred tax assets (Note 29)	3
Short-term borrowings	(5,771)
Trade and other accounts payable	(11,478)
Provisions and liabilities for tax uncertainties (Note 34)	(25,148)
Deferred tax liability (Note 29)	(3,006)
Net liabilities acquired	(19,256)
Goodwill (Note 12)	49,655
Total acquisition cost	**30,399**
Net cash outflow arising from the acquisition	**25,659**

The Group assigned provisional values to net liabilities 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 of USD 26,559 and deferred consideration of USD 3,840.

The goodwill recognised is attributable to: i) the business concentration in the Moscow and Moscow region and ii) expected cost synergies from the business combination.

Retail Express

In April 2010 the Group acquired an additional 20% of the voting shares of Retail Express Ltd. Retail Express Ltd is the owner of Perekrestok-Express convenience store chain (“Express Retail”).

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

	Provisional values at the acquisition date
Net assets acquired	4,857
Consideration transferred	6,020
Fair value of interest acquired previously	6,570
Non-controlling interest	1,943
	14,533
Goodwill (Note 12)	9,676
Net cash outflow arising from the acquisition	**5,262**

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.

Other acquisitions

In 2010 the Group acquired several businesses by purchasing lease agreements of other retail chains in Russian regions.

These businesses did not prepare financial statements immediately before the acquisition, therefore, it is impracticable to disclose revenue and net profit of the Group for the year ended 31 December 2010 as though the acquisition date had been the beginning of that period.

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

	Provisional values at the acquisition date
Inventories of goods for resale	49
Intangible assets (Note 13)	4,086
Property, plant and equipment (Note 10)	3,081
Deferred tax assets (Note 29)	2,480
Net assets acquired	9,696
Goodwill (Note 12)	9,922
Total acquisition cost	**19,618**
Net cash outflow arising from the acquisition	**19,618**

The Group assigned provisional values to net assets acquired, in estimating provisional values of lease rights direct references to observable prices in an active market are used (market approach). The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents of USD 19,618.

The goodwill recognised is attributable to: i) the business concentration in the Russian regions and ii) expected cost synergies from the business combination.

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.

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:

	Fair values at the acquisition date	Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2009
Cash and cash equivalents	3,311	-
Inventories of goods for resale	14,829	-
Loans originated	1,728	-
Trade and other accounts receivable	16,524	1,920
Intangible assets	22,677	-
Property, plant and equipment (Note 10)	120,829	(5,243)
Deferred tax assets	-	(5,427)
Short-term borrowings	(82,385)	-
Trade and other accounts payable	(69,587)	367
Provisions and liabilities for tax uncertainties (Note 34)	(41,253)	-
Long-term borrowings	(6,883)	-
Deferred tax liability	(14,424)	(296)
Net liability acquired	(34,634)	(8,679)
Goodwill (Note 12)	225,503	8,679
Total acquisition cost	**190,869**	
Net cash outflow arising from the acquisition for the year ended 31 December 2009	**187,508**	

Internet Retail

The Group has finalized the purchase price allocation within 12 months from the acquisition date. Effect of change in purchase price allocation on the Consolidated Statement of Financial Position as at 31 December 2009 is as follows:

	Effect of change in purchase price allocation
Inventories of goods for resale	(629)
Trade and other accounts payable	(1,130)
Goodwill (Note 12)	1,759

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 2010 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	2010	2009
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,302	1,178
Recharged expenses		347	749
Alfa-Bank	Under common control	9,353	17,970
Interest expense on loan received		769	1,458
Interest income		1,677	1,114
Bank charges		866	794
Rent revenue			
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services received		3,371	3,585
Commission for mobile phone payments processing rendered by the Group to VimpelCom		801	698
Rent revenue		195	105
AlfaInsurance	Under common control		
Insurance expenses		157	5
Megafon	Under common control		
Commission for mobile phone payments processing rendered by the Group to Megafon		570	259
Rent revenue		223	201

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

	Relationship	31 December 2010	31 December 2009
CTF Holding Ltd.	Ultimate parent company		
Other accounts payable		7	115
Alfa-Bank	Under common control		
Cash and cash equivalents		43,274	208,610
Receivable from related party		306	277
Short-term loans payable		127,966	75,000
Other accounts payable		307	112
Long-term loans payable		98,435	-
AlfaInsurance	Under common control		
Receivable from related party		69	1,098
Other accounts payable		-	10
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		346	512
Other accounts payable		743	536
Megafon	Under common control		
Receivable from related party		189	71
Other accounts payable		95	87

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 15,100 mln or USD 495,457 (31 December 2009: RUR 9,100 mln or USD 300,884). At 31 December 2010 the Group's liability under this credit line amounted to USD 226,401 with interest rates of 5.10 – 7.83% p.a. (31 December 2009: USD 75,000) and available credit line of USD 269,056 (31 December 2009: USD 225,884). The Group has certain purchase agreements under which the Group settles its liabilities to Alfa-Bank in accordance with factoring arrangements concluded between vendors of goods and Alfa-Bank.

Key management personnel compensation
Key management personnel compensation is disclosed in Note 27.

9. CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
Cash in hand – Roubles	35,610	22,930
Cash in hand – Ukrainian Hryvnia	208	188
Bank current account – Roubles	107,626	252,956
Bank current account – Ukrainian Hryvnia	637	13
Bank current accounts and deposits – US Dollars	8,467	5,286
Cash in transit – Roubles	93,956	70,477
Cash in transit – Ukrainian Hryvnia	647	632
Short term deposits – Roubles	18,636	54,820
Other cash equivalents	4,975	4,379
	270,762	**411,681**

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.

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

Bank	Moody's	Fitch	S&P	31 December 2010	31 December 2009
Alfa-Bank	Ba1	BB	BB-	43,274	208,610
Raiffeisenbank	Baa3	BBB+	BBB	10,823	20,314
Sberbank	Baa1	BBB	-	30,905	51,273
VTB	Baa1	BBB	BBB	1,954	19,031
Credit Europe	Ba3	BB-	-	16,408	-
Uralsib	Ba3	B+	B+	14,557	-
Gazprombank	Baa3	-	BB	7,577	-
Other banks				9,868	13,847
Cash in transit and in hand				130,421	94,227
Other monetary assets				4,975	4,379
Total				**270,762**	**411,681**

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10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigerating equipment	Vehicles	Other	Construction in progress	Total
Cost:							
At 1 January 2009	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 (Note 11)	135,435	87,038	18,292	4,710	23,680	(276,673)	(7,518)
Assets from acquisitions (Note 7)	100,802	4,522	10,542	3	398	4,575	120,842
Disposals	(3,251)	(3,748)	(1,167)	(32)	(642)	(410)	(9,250)
Translation movement	(60,687)	(6,498)	(3,808)	(245)	(2,254)	(20,710)	(94,202)
At 31 December 2009	2,617,267	362,206	188,171	33,755	113,195	235,424	3,550,018
Additions	16,174	18,776	2,752	147	16,703	351,047	405,599
Transfers (Note 11)	173,456	7,342	50,284	23,218	78,262	(334,999)	(2,437)
Assets from acquisitions (Note 7)	348,555	47,501	29,797	26,729	10,090	17,692	480,364
Disposals	(19,777)	(11,853)	(5,891)	(971)	(6,988)	(10,285)	(55,765)
Translation movement	(11,122)	(1,663)	(946)	374	(906)	(1,312)	(15,575)
At 31 December 2010	3,124,553	422,309	264,167	83,252	210,356	257,567	4,362,204
Accumulated depreciation:							
At 1 January 2009	(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)
Charge for the year	(113,223)	(32,101)	(30,942)	(8,277)	(42,930)	-	(227,473)
Disposals	3,968	7,258	5,273	597	5,487	-	22,583
Translation movement	2,492	1,122	608	112	535	161	5,030
At 31 December 2010	(376,750)	(154,733)	(92,344)	(18,518)	(96,430)	(21,017)	(759,792)
Net book value at 31 December 2010	**2,747,803**	**267,576**	**171,823**	**64,734**	**113,926**	**236,550**	**3,602,412**
Net book value at 31 December 2009	**2,347,280**	**231,194**	**120,888**	**22,805**	**53,673**	**214,246**	**2,990,086**
Net book value at 1 January 2009	**2,257,902**	**182,123**	**115,390**	**18,200**	**49,653**	**415,776**	**3,039,044**

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 99,862 (31 December 2009: USD 98,510). Loans from Kopeyka acquisition (Note 20) were collaterized by land and buildings including investment property with a net book value of USD 207,045.

Impairment Test

At the end of 2010 management performed 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.

Value in use

Discounted free cash flow approach is applied and covered a 10 year period from 2011. 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%-15%). EBITDA growth rate used for projections was 8.5%, 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 recoverable amount of the stores exceeded its carrying amount therefore no impairment was recognised.

11. INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2010 and 31 December 2009:

	2010	2009
Cost:		
Cost at 1 January	144,136	130,997
Additions	-	8,574
Assets from acquisitions (Note 7)	16,227	-
Transfer from property, plant and equipment (Note 10)	2,437	7,518
Disposals	(14)	-
Translation movement	(667)	(2,953)
Cost at 31 December	162,119	144,136
Accumulated depreciation:		
Accumulated depreciation at 1 January	(10,711)	(5,304)
Charge for the year	(5,871)	(5,299)
Disposals	4	-
Translation movement	102	(108)
Accumulated depreciation at 31 December	(16,476)	(10,711)
Net book value at 31 December	**145,643**	**133,425**
Net book value at 1 January	**133,425**	**125,693**

Rental income from investment property amounted to USD 25,628 (2009: USD 22,967). Direct operating expenses incurred by the Group in relation to investment property amounted to USD 9,882 (2009: 7,759).

Management estimates that the fair value of investment property at 31 December 2010 amounted to USD 198,826 (31 December 2009: USD 164,641). Assets from acquisitions of Kopeyka were pledged (Note 10).

12. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2010 and 31 December 2009 are:

	2010	2009
Cost:		
Gross book value at 1 January	2,970,518	2,811,579
Acquisition of subsidiaries (Note 7)	1,194,051	247,829
Translation to presentation currency	10,517	(88,890)
Gross book value at 31 December	4,175,086	2,970,518
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,192,557)	(2,257,020)
Translation to presentation currency	16,740	64,463
Accumulated impairment losses at 31 December	(2,175,817)	(2,192,557)
Carrying amount at 31 December	**1,999,269**	**777,961**
Carrying amount at 1 January	**777,961**	**554,559**

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 30.16 per share. The market capitalization of the Group at 31 December 2010 amounted to USD 12,545,580 significantly exceeded the carrying amount of the CGU.

Value in use

Discounted free cash flow approach was utilized. For the 10 year period from 2011 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 indexes 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%-15%). EBITDA growth rate used for projections was 8.5%, 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.

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13. INTANGIBLE ASSETS

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost:					
At 1 January 2009	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
Additions	-	-	31,440	-	31,440
Acquisition of subsidiaries (Note 7)	171,123	34,736	18,382	29,865	254,106
Disposals	(2,851)	(8,933)	(4,959)	(295)	(17,038)
Translation movement	1,691	495	(51)	(768)	1,367
At 31 December 2010	558,416	87,490	90,829	166,463	903,198
Accumulated amortisation:					
At 1 January 2009	(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)
Charge for the year	(26,184)	(15,608)	(5,445)	(17,942)	(65,179)
Disposals	2,620	8,933	4,957	295	16,805
Translation movement	575	290	126	251	1,242
At 31 December 2010	(87,371)	(41,810)	(9,743)	(45,420)	(184,344)
Net book value at 31 December 2010	**471,045**	**45,680**	**81,086**	**121,043**	**718,854**
Net book value at 31 December 2009	**324,071**	**25,767**	**36,636**	**109,637**	**496,111**
Net book value at 1 January 2009	**354,333**	**35,337**	**5,468**	**104,186**	**499,324**

14. INVENTORIES OF GOODS FOR RESALE

Inventories of goods for resale as of 31 December 2010 and 31 December 2009 comprise the following:

	31 December 2010	31 December 2009
Inventories of goods for resale	1,085,158	675,257
Less: provision for shrinkage and slow moving stock	(69,416)	(63,164)
	1,015,742	**612,093**

Inventory shrinkage and slow moving stock recognised as cost of sales in the consolidated income statement amounted to USD 222,556 (2009: USD 191,287).

15. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables
31 December 2010 **Assets as per consolidated statement of financial position**	
Trade and other receivables excluding prepayments	272,191
Loans originated	1,314
Cash and cash equivalents	270,762
Total	**544,267**

	Financial liabilities at amortised cost
31 December 2010 **Liabilities as per consolidated statement of financial position**	
Borrowings (excluding finance lease liabilities)	3,684,796
Interest accrued	16,678
Finance lease liabilities	4,417
Derivative financial instruments	-
Trade and other payables excluding statutory liabilities and advances	2,289,620
Total	**5,995,511**

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	Loans and receivables
31 December 2009 **Assets as per consolidated statement of financial position**	
Trade and other receivables excluding prepayments	216,799
Loans originated	2,848
Cash and cash equivalents	411,681
Total	**631,328**

	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	-	1,841,585	1,841,585
Total	**10,108**	**3,800,984**	**3,811,092**

16. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2010	31 December 2009
Trade accounts receivable	242,957	214,403
Advances made to trade suppliers	18,732	25,752
Other receivables	65,535	21,406
Prepayments	90,926	69,106
Accounts receivable for franchise services	105	1,814
Receivables from related parties (Note 8)	910	5,290
Provision for impairment of trade and other receivables	(37,316)	(26,114)
	381,849	**311,657**

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 42,737 that in accordance with accounting policies are past due but not impaired as at 31 December 2010 (31 December 2009: USD 27,715).

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

	31 December 2010	31 December 2009
2-6 months	28,730	23,313
Over 6 months	14,007	4,402
	42,737	**27,715**

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

	2010	2009
At 1 January	(13,119)	(11,233)
Accrual of provision for receivables impairment	(16,707)	(12,020)
Release of provision for receivables impairment	5,224	9,821
Translation movement	141	313
At 31 December	**(24,461)**	**(13,119)**

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 2010	31 December 2009
3-6 months	1,838	643
Over 6 months	22,623	12,476
	24,461	**13,119**

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 10,168 that in accordance with accounting policies are past due but not impaired as at 31 December 2010 (31 December 2009: USD 4,961).

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

	31 December 2010	31 December 2009
2-6 months	5,153	3,522
Over 6 months	5,015	1,439
	10,168	**4,961**

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

	2010	2009
At 1 January	(12,995)	(1,661)
Accrual of provision for receivables impairment	(7,641)	(11,639)
Release of provision for receivables impairment	7,677	883
Translation movement	104	(578)
At 31 December	**(12,855)**	**(12,995)**

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

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 2010	31 December 2009
3-6 months	433	461
Over 6 months	12,422	12,534
	12,855	**12,995**

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 2010	31 December 2009
VAT recoverable	240,602	161,397
Other taxes recoverable	22,226	13,365
	262,828	**174,762**

VAT recoverable related to property, plant and equipment of USD 27,564 (31 December 2009: USD 20,542) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. The terms of recovery of VAT depends on the registration of certain property, plant and equipment or stage of completion of the construction works and fulfilment of other conditions in compliance with Russian tax legislation, therefore there are risks that recovering the balance may take longer than twelve months.

18. DERIVATIVES

During 2010 interest rate swaps initiated by the Group in 2008 and in 2009 (Note 30) ended. As at 31 December 2010 the fair value of the interest rate swaps was nil (31 December 2009: USD 10,108).

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19. PROVISIONS AND OTHER LIABILITIES

	31 December 2010	31 December 2009
Taxes other than income tax	85,542	61,961
Provisions and liabilities for tax uncertainties (Note 34)	165,896	147,087
Accrued salaries and bonuses	115,251	102,653
Payables to landlords	7,779	6,462
Other accounts payable and accruals	214,462	141,767
Accounts payable for services received	51,004	16,244
Accounts payable for property, plant and equipment	49,670	18,134
Advances received	50,647	40,161
	740,251	**534,469**

There are no significant amounts of payables to foreign counterparties as at 31 December 2010 and 31 December 2009.

20. BORROWINGS

		31 December 2010		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total
USD Club loan	USD Libor +2.5%	-	388,595	388,595
RUR Club loan	MosPrime +2.5%	-	405,292	405,292
RUR Bonds	7.95%-18.46%	253,589	227,700	481,289
RUR Bilateral Loans	MosPrime +2.7%-3.1%	5,790	1,494,738	1,500,528
RUR Bilateral Loans	4.7%-7.83%	210,005	98,435	308,440
RUR Bonds from Kopeyka acquisition	9%-16.5%	-	329,069	329,069
RUR Loans from Kopeyka acquisition	7%-10.5%	36,620	232,963	269,583
USD Loans from Retail Express acquisition	12%	2,000	-	2,000
Total borrowings		**508,004**	**3,176,792**	**3,684,796**

		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**

In June 2009 the Group placed RUR 8 billion corporate bonds with a maturity of 7 years including a put option in 2 years. Coupon rates for 5-14 coupon payments are defined by the Issuer, according to issue documents.

In July 2010 the Group fulfilled its obligations in respect of RUR 9 billion corporate bonds. The new annual rate for the next 8 semi-annual coupons is 7.95%. Within the framework of the put-option and in line with overall debt portfolio management the Group bought back 2,035,483 bonds with nominal value of 1,000 RUR. The outstanding number of the corporate bonds decreased from 9,000,000 to 6,964,517 becoming long-term with maturity in July 2014.

In September 2010 the Group signed and effected drawdown of the new club loan with a total amount of USD 800,000 for partially refinancing the existing USD 1,100,000 syndicated facility, which was due to mature in December 2010. The rest of the syndicated facility was refinanced through other existing facilities. The new club loan is for three years, consists of USD-denominated and RUR-denominated facilities (each equivalent of USD 400,000) and will pay a margin of 250 basis points over MosPrime/LIBOR for both the RUR and USD lines. No collateral is provided for these facilities.

In September 2010 the Group and Sberbank finalized documentation of a five-year rouble denominated revolving committed credit facility with a total value of USD 500,000 (in RUR equivalent based on the exchange rate of the Central Bank of the Russian Federation as at the draw down date) and interest rate determined as a spread over 3-month MosPrime (depending of the maturity) effective until December 2015. The credit facility may be utilized in several tranches with maturities of up to 3 years. No collateral is provided for this facility.

In December 2010 the Group financed acquisition of Kopeyka via long-term facility with Sberbank. RUR 31 billion was financed through a new long-term ruble financing, while the rest was withdrawn under the existing credit lines. The new Sberbank facility took the form of a five-year unsecured RUR-denominated line of credit with final maturity date in December 2015. Credit terms are comparable with those provided by leading western banks.

All borrowings at 31 December 2010 are shown net of related transaction costs of USD 30,219 which are amortised over the term of loans using the effective interest method (31 December 2009: USD 10,056).

In accordance with new signed facilities the Group maintains an optimal capital structure by tracking certain requirements: the maximum level of Net Debt/EBITDA (4.00 / 4.25 after acquisition), minimum level of EBITDA/Net Interest expense (2.75). The facilities are provided on unsecured basis.

21. SHARE CAPITAL

In April 2010 1,746,505 ordinary shares were transferred in exchange for Global Depositary Receipts ("GDR"). 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 did not affect the number of outstanding shares, which remains unchanged at 67,893,218, while the number of GDRs admitted to trading on the London Stock Exchange's Regulated Market increased by 6,986,020. Following this conversion, 100% of the Group share capital is held in the form of GDRs.

As at 31 December 2010 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 with nominal par value of Euro 1.

No dividends were paid or declared during the year ended 31 December 2010 and the year ended 31 December 2009.

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:

	2010	2009
Profit/(Loss) attributable to equity holders of the Parent	271,688	165,351
Weighted average number of ordinary shares in issue	67,813,947	67,813,947
Effect of share options granted to employees	295,912	149,281
Weighted average number of ordinary shares for the purposes of diluted earnings per share	68,109,859	67,963,228
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**4.01**	**2.44**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**3.99**	**2.43**

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23. REVENUE

	2010	2009
Revenue from sale of goods	11,263,827	8,683,821
Revenue from franchise services	7,150	8,060
Revenue from other services	9,515	25,518
	11,280,492	**8,717,399**

24. EXPENSES BY NATURE

	2010	2009
Cost of goods sold	8,331,891	6,409,199
Staff costs (Note 27)	1,131,564	855,189
Operating lease expenses	404,807	267,857
Depreciation, amortisation and impairment	298,523	268,243
Other store costs	180,612	150,760
Utilities	221,251	159,577
Other	307,441	239,301
	10,876,089	**8,350,126**

Operating lease expenses include USD 388,956 (2009: USD 248,379) of minimum lease payments and contingent rents of USD 15,851 (2009: USD 19,478).

Provision for impairment of trade and other receivables amounted to USD 11,447 for the year ended 31 December 2010 (2009: USD 12,955).

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:

	31 December 2010	31 December 2009
Not later than 1 year	46,151	40,072
Later than 1 year and no later than 5 years	23,653	17,726
Later than 5 years	4,019	7,965
	73,823	**65,763**

The rental income from operating leases recognised in the consolidated income statement amounted to USD 112,122 (2009: USD 92,391). There were no contingent rents recognised in the consolidated income statement in the year ended 31 December 2010 (2009: nil).

26. FINANCE INCOME AND COSTS

	2010	2009
Interest expense	133,197	148,275
Interest income	(1,690)	(3,817)
Other finance costs, net	14,706	9,689
	146,213	**154,147**

Other finance costs include transaction costs of USD 12,268 written-off to the consolidated income statement (2009: USD 6,950) (Note 20).

27. STAFF COSTS

	2010	2009
Wages and salaries	881,872	662,947
Social security costs	186,526	132,926
Share-based payments expense	63,166	59,316
	1,131,564	**855,189**

Key executive management personnel

The Group 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 2010 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 4,954 (2009: USD 6,524), including bonuses of USD 159 (2009: USD 2,060) payable on an annual basis subject to meeting annual performance targets. As at 31 December 2010 the total amount of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 2,676,250 (31 December 2009: 3,187,500 GDRs) and conditional rights under LTI plan was 178,268. The total intrinsic value of vested share options amounted to USD 57,038 as at 31 December 2010 (31 December 2009: 1,245).

28. SHARE-BASED PAYMENTS

Employee stock option program

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.

In total, during the year ended 31 December 2010 the Group recognized an expense related to the ESOP in the amount of USD 52,975 (during the year ended 31 December 2009: USD 59,316). At 31 December 2010 the share-based payments liability amounted to USD 89,298 (31 December 2009: USD 85,545). The equity component was effectively zero at 31 December 2010 (31 December 2009: zero).

Details of the share options outstanding during the year ended 31 December 2010 are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	7,586,950	24.4
Exercised during the period	(3,489,150)	22.7
Forfeited during the period	(41,250)	24.0
Outstanding at the end of the period	**4,056,550**	**25.7**
Exercisable at 31 December 2010	4,056,550	25.7

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 behavioral considerations. Other key inputs to the calculation of ESOP liability at 31 December 2010 were as follows:

Expected GDR price	44.39
Expected volatility	55%
Risk-free interest rate	2%
Dividend yield	0%

Employee stock plan

In 2010 the Group introduced its next generation long term incentive plan in the form of a Restricted Stock Unit Plan (RSU Plan) for its key executives and employees. Each Restricted Stock Unit (RSU) that may be granted under the RSU Plan carries the right to one GDR. The program runs in four tranches granted over the period to 19 May 2014. Over the period of four calendar years starting 2010, the RSU Plan provides for the annual grant of conditional rights to RSUs, subject to i) the achievement of specific performance criteria of the Group (KPIs) and ii) continuous employment with the Group until the completion of the vesting period. The KPIs mainly relate to (i) the performance of the Group compared to the performance of a selected group of comparable competitors in achieving sustained growth and an increasing presence in its markets of operation and (ii) maintain agreed profitability ratio of the Group at a pre-defined level.

Members of the Supervisory Board may be granted conditional RSUs not subject to performance criteria. The General Meeting of Shareholders determines the number of conditional RSUs granted to members of the Supervisory Board. The RSU Plan, as well as the first tranche of conditional RSUs in favour of members of the Supervisory Board, was approved by Annual General Meeting of Shareholders on 25 June 2010. The first tranche will vest on 19 May 2013. Upon vesting the RSUs will be converted into GDRs registered in the participant’s name. Subsequently, GDRs are subject to a two-year lock-in period during which period the GDRs cannot be traded.

In total, during the year ended 31 December 2010 the Group recognized expenses related to the RSU plan in the amount of USD 10,191. At 31 December 2010 the equity component was USD 5,965. The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding during the year ended 31 December 2010 are as follows:

	Number of conditional rights	Weighted average fair value, USD
Outstanding at the beginning of the period	-	-
Granted during the period	832,702	35.50
Outstanding at the end of the period	**832,702**	**35.50**

29. INCOME TAX

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax charge	104,336	168,438
Deferred income tax charge/(benefit)	10,730	(69,823)
Income tax charge for the year	**115,066**	**98,615**

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before taxation	386,312	263,966
Theoretical tax at the effective statutory rates *	77,265	52,793
Tax effect of items which are not deductible or assessable for taxation purposes:		
Share-based payments expense	8,654	2,561
Effect of income taxable at rates different from standard statutory rates	(5,690)	9,283
Effect of different tax regime in parent company	330	(3,169)
Recognition of DT asset on prior losses for which no DT asset was previously recognised	(1,691)	(7,225)
Expenses on inventory shrinkage and surpluses	34,115	37,409
Other non-deductible expenses and non-taxable income	2,083	6,963
Income tax charge for the year	**115,066**	**98,615**

* Profit before taxation on Russian operations is assessed based on the statutory rate of 20%, profit before taxation on Ukrainian operations is assessed based on the statutory rate of 25%.

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 2010:

	31 December 2009	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2010
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	42,832	(1,191)	3,671	(451)	44,861
Property, plant and equipment	47,673	(7,985)	73	(338)	39,423
Intangible assets	76	581	-	(3)	654
Inventories of goods for resale	37,215	2,602	576	(278)	40,115
Accounts receivable	15,898	4,536	3,770	(143)	24,061
Accounts payable	70,583	8,917	478	(585)	79,393
Other	10,624	4,720	5,751	422	21,517
Gross deferred tax asset	**224,901**	**12,180**	**14,319**	**(1,376)**	**250,024**
Less offsetting with deferred tax liabilities	(78,542)	(40,736)	(264)	830	(118,712)
Recognised deferred tax asset	**146,359**	**(28,556)**	**14,055**	**(546)**	**131,312**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(157,415)	(1,053)	(20,543)	695	(178,316)
Intangible assets	(98,741)	7,040	(49,144)	(492)	(141,337)
Inventories of goods for resale	(4,222)	(2,618)	–	42	(6,798)
Accounts receivable	(13,991)	(29,601)	–	211	(43,381)
Accounts payable	(1,157)	1,152	–	5	-
Other	(11,001)	2,170	(1,472)	49	(10,254)
Gross deferred tax liability	**(286,527)**	**(22,910)**	**(71,159)**	**510**	**(380,086)**
Less offsetting with deferred tax assets	78,542	40,736	264	(830)	118,712
Recognised deferred tax liability	**(207,985)**	**17,826**	**(70,895)**	**(320)**	**(261,374)**

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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)	6,288	(2,513)	15,898
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**	**8,073**	**(707)**	**224,901**
Less offsetting with deferred tax liabilities	(47,354)	(32,306)	1,118	–	(78,542)
Recognised deferred tax asset	**94,558**	**43,317**	**9,191**	**(707)**	**146,359**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(158,698)	13,139	(17,727)	5,871	(157,415)
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)	(160)	(294)	(13,991)
Accounts payable	(618)	(531)	-	(8)	(1,157)
Other	(9,421)	(1,761)	(63)	244	(11,001)
Gross deferred tax liability	**(266,515)**	**(5,800)**	**(22,483)**	**8,271**	**(286,527)**
Less offsetting with deferred tax assets	47,354	32,306	(1,118)	–	78,542
Recognised deferred tax liability	**(219,161)**	**26,506**	**(23,601)**	**8,271**	**(207,985)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 580,597 (2009: USD 570,943) 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 25,785 (31 December 2009: USD 16,730), the current portion of the deferred tax asset amounted to USD 126,161 (31 December 2009: USD 25,280).

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 44,861 recognised at 31 December 2010 for the carryforward of unused tax losses (31 December 2009: USD 42,832). Unused tax losses are available for carry forward for a period not less than 7 years depending on the tax residence of every certain company of the Group.

30. FINANCIAL RISKS MANAGEMENT

Financial risk management is a part of integrated risk management and internal control framework described in “Corporate Governance” section of this Annual report. The primary objectives of the financial risk management are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Financial risk management is carried out by Corporate Finance Department. Corporate Finance Department monitors and measures financial risks and undertakes steps to limit their influence on the Group’s performance. In this connection the Group used certain derivative financial instruments to mitigate financial risk exposures. These instruments where intended to cap foreign currency and interest rate risks associated with the most significant long-term borrowings.

In 2010 the Group implemented a Hedging Strategy which formalized management of interest rate risk, currency rate risk and maturity risk by approval of certain ratios that should be maintained by the Group. The Hedging Strategy was approved by Management Board and confirmed by Supervisory Board.

(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 operational perspective the Group does not have any substantial currency exposures due to the nature of its operations being all revenues and expenses fixed in the local currency (RUR). All other transactions in the foreign currency except for financing arrangements are insignificant.

The Group has significantly reduced its foreign currency exposure through refinancing of the syndicated loan, foreign exchange risk is mostly limited to USD 400,000 tranche of the new club loan (Note 20). Foreign exchange risk is therefore considered to be insignificant.

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 2010, 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 60,173 (31 December 2009: USD 166,725) lower/higher as a result of foreign exchange losses/gains on USD denominated borrowings and USD 17,038 lower/higher (31 December 2009: USD 13,614 higher/lower) as a result of foreign exchange losses/gains on share-based payments 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.

In September 2010 the Group minimized interest rate risk related to LIBOR rate by refinancing of USD 1,100,000 syndicated facility through RUR and USD borrowings. MosPrime rate risk is managed through the balanced credit portfolio, using different types of financing instruments on the basis of fixed and floating rates.

If LIBOR had been 200 basis points lower/higher in 2010 with all other variables held constant, post-tax profit for the year would have been USD 13,108 (2009: USD 16,288) higher/lower without taking into account effect of interest rate hedge. If MosPrime had been 200 basis points lower/higher in 2010 with all other variables held constant, post-tax profit for the year would have been USD 4,577 (2009: USD 556) higher/lower.

(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.

(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 Group finances its operations by a combination of internal cash flows, long and medium-term debt, capital market issues, commercial paper, bank borrowings and leases. The objective is to ensure continuity of funding on the best available market terms. The policy is to keep the Group's credit portfolio diversified structure, continue to improve the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities, and a strong credit rating so that maturing debt may be refinanced as it falls due.

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 2010	During 1 year	In 1 to 3 years
Borrowings	782,376	3,554,263
Trade payables	1,851,454	-
Gross finance lease liabilities	1,680	2,737
Derivative financial liabilities	-	-
Other finance liabilities	438,165	-
	3,073,675	**3,557,000**

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	285,261	-
	3,615,204	**316,869**

At 31 December 2010 the Group has negative working capital of USD 1,188,798 (31 December 2009: USD 2,335,950) including short-term borrowings of USD 508,004 (31 December 2009: USD 1,656,622).

At 31 December 2010 the Group had available bank credit lines of USD 1,129,063 (31 December 2009: USD 555,170).

At 31 December 2010 the Group short-term borrowings mainly comprised of a corporate bonds and bilateral loans of USD 508,004.

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 of the liquidity risk is seasonal, with the highest peak in 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 rolling basis which is closely monitored by detailed cash flow forecasts and are 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 more than sufficient to finance the Group's current operations.

31. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. 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 determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

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.

In accordance with new signed facilities the Group maintains an optimal capital structure by tracking certain capital requirements: the maximum level of Net Debt/EBITDA (4.00 / 4.25 after acquisition), minimum level of EBITDA/Net Interest expense (2.75). 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 and Kopeyka bonds traded on the MICEX is determined based on active market quotations and amounted to USD 496,539 and USD 331,939 at 31 December 2010 (31 December 2009: 586,450). The carrying value of these bonds amounted to USD 482,759 and USD 329,069 at 31 December 2010 (31 December 2009: 558,899) (Note 20). The fair value of long-term borrowings approximates their carrying value (31 December 2009: 327,241) as interest rates on long-term borrowings were not materially different from current market rates. 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. As at 31 December 2010 the Group had no derivative financial instruments (Note 18).

34. COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2010, the Group operated 1,612 stores through rented premises (31 December 2009: 802). 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 2010 (present value)	31 December 2009 (present value)	31 December 2010 (nominal value)	31 December 2009 (nominal value)
During 1 year	309,303	199,983	331,691	215,389
In 2 to 5 years	646,304	351,996	947,133	525,354
Thereafter	264,161	139,307	825,790	474,981
	1,219,768	**691,286**	**2,104,614**	**1,215,724**

A discount rate applied in determining the present value of future minimum lease payments is based on the Group weighted average cost of capital (12-15%).

Capital expenditure commitments

At 31 December 2010 the Group contracted for capital expenditure of USD 83,425 (net of VAT), (2009: USD 100,068).

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.

Inter-company transactions undertaken by the companies of the Group are potentially subject to transfer pricing controls established by Article 40 of the Russian Tax Code. 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.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. The Russian tax legislation does not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated.

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 the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), 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.

Provisions and liabilities for tax uncertainties recognized on acquisitions (Note 7) are attributable to profit tax and non-profits tax risks with expiration within three years from the year when acquisition occurred, in 2010 the Group released provision of USD 60,262 including USD 11,398 indemnified by previous shareholders of acquired companies, non-income tax of USD 47,420 and income tax of USD 1,444.

At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 165,896 at 31 December 2010 (31 December 2009: USD 147,087) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2009	**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**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	78,414
Release of provision	(60,262)
Translation movement	657
Balance at 31 December 2010	**165,896**

X5 Retail Group Company's Balance Sheet at 31 December 2010

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

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Financial assets	36	2,747,511	2,474,217
		2,747,511	2,474,217
Current assets			
Financial assets	36	84,491	770,833
Amounts due from subsidiaries		263,840	349,713
Accounts receivable		124	988
Cash		1,773	1,513
		350,228	1,123,047
Total assets		**3,097,739**	**3,597,264**
EQUITY AND LIABILITIES			
Paid up and called up share capital	37	89,850	97,400
Share premium account		1,921,667	1,936,452
Share-based payments	40	5,965	-
Other reserves		202,678	111,480
(Loss)/Profit of the year		(497)	92,757
Currency translation reserve		(28,318)	(35,394)
Total equity		**2,191,345**	**2,202,695**

X5 Retail Group
Company's Balance Sheet
at 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2010	31 December 2009
Non-current liabilities			
Bank loans	38	793,887	-
Share based payment liability	40	13,157	25,986
		807,044	25,986
Current liabilities			
Bank loans	38	-	1,093,135
Amounts due to subsidiaries		8,897	189,500
Financial liabilities	39	-	10,108
Accrued expenses and other liabilities	39	12,434	10,415
Share based payment liability	40	76,141	59,559
Corporate income tax	42	1,878	5,866
		99,350	1,368,583
Total equity and liabilities		**3,097,739**	**3,597,264**

X5 Retail Group
Company`s Income Statement
for the year ended 31 December 2010

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

	Note	31 December 2010	31 December 2009
Other income and expenses after tax	41	(497)	92,757
Result on participating interest after tax		-	-
(Loss)/Profit after taxation		**(497)**	**92,757**

X5 Retail Group
Notes to Company's Financial Statements for the year ended 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

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 holding company for a retail chain.

Basis of presentation
The Company financial statements of X5 Retail Group N.V. 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 (art 362.8).

Accounting principles
Unless stated otherwise below, 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). 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 consolidated financial statements of the group for the year ending 31 December 2010 has 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 result of the international bifurcation of the Company. As the Company mainly exploits Russian grocery stores in four formats (soft-discount, supermarket, hypermarket and convenience stores), 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 instruments are recognized 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.

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 2010	31 December 2009
a. Movements in the interests in group companies have been as follows:		
Opening balance	1,705,831	1,547,170
Acquisitions / capital contribution	506,020	209,079
Divestment of Group companies	(180,295)	-
Foreign exchange differences/other movements	(14,063)	(50,418)
Closing balance	**2,017,493**	**1,705,831**

A complete list of group companies has been disclosed in the consolidated financial statements (refer to note 6 of consolidated financial statements).

b. Movements in the loans to group entities have been as follows:		
Opening balance	1,539,219	1,590,846
Disbursement	(1,045,213)	(55,199)
Additions	313,569	-
Other movements/foreign exchange differences	6,934	3,572
Closing balance	**814,509**	**1,539,219**
Total Financial assets	**2,832,002**	**3,245,050**

The long-term loans provided to following Group entities:	Currency	Date of maturity
Speak Global Ltd.	USD	December 2012
GSWL Finance Ltd.	USD	December 2010
GSWL Finance Ltd.	RUR	June 2011
Perekrestok Holdings Ltd.	RUR	January 2012
Perekrestok Holdings Ltd.	USD	January 2012

In the loans receivable there are amounts to GSWL Finance Ltd. and Perekrestok Holdings Ltd. denominated in RUR, the total amount of the loans is RUR 12,352,040. Furthermore an amount of USD 84,491 is classified as short term. The loans have not been secured and attract up to 10.5% interest per annum.

In 2010 year the Company entered into two intercompany agreements, according to which the Indemnifier protects the Company against currency exchange risks and credit risks on the intercompany financing.

37. SHAREHOLDERS' EQUITY

	Share capital	Share premium	Other Reserves	Profit/(Loss)	Share-based payments	Currency translation adjustment	Total
Balance as per 1 January 2009	**95,764**	**1,993,385**	**(34,906)**	**149,664**	**-**	**(36,537)**	**2,167,370**
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 01 January 2010	**97,400**	**1,936,452**	**111,480**	**92,757**	**-**	**(35,394)**	**2,202,695**
Other	-	-	-	-	5,965	-	5,965
Transfer	-	-	92,757	(92,757)	-	-	-
Currency translation	(7,550)	(14,785)	(1,559)	-	-	7,076	(16,818)
Result for the period	-	-	-	(497)	-	-	(497)
Balance as per 31 December 2010	**89,850**	**1,921,667**	**202,678**	**(497)**	**5,965**	**(28,318)**	**2,191,345**

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

X5 Retail Group
Notes to Company's Financial Statements
for the year ended 31 December 2010
(expressed in thousands of US Dollars, unless otherwise stated)

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

	31 December 2010	31 December 2009
Equity per Company financial statements	2,191,345	2,202,695
Accumulated result of group	(1,769,657)	(1,842,251)
Acquisition of treasury shares	(14,150)	(14,150)
Hedging instruments	-	(10,108)
Results from subsidiaries for the year	271,743	72,594
Acquisition of subsidiaries	1,943	-
Sale of treasury shares	144,217	144,217
Currency exchange differences	(217,556)	(219,682)
Equity change as an effect of reverse acquisition transaction	1,439,149	1,439,149
Equity per consolidated financial statements	**2,047,034**	**1,772,464**

Difference in loss/profit	31 December 2010	31 December 2009
(Loss)/Profit according to Company's annual accounts	(497)	92,757
Profit from subsidiaries for the year	271,743	72,594
Profit according to consolidated annual accounts	**271,246**	**165,351**

Share capital issued

The authorized 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 2010, the issued and paid-up share capital amounts to EUR 67,893,218 and consists of 67,893,218 shares of EUR 1 each (2009: 67,893,218). This has been recalculated into USD with an exchange rate of 1 EUR = 1.3234 USD (2009: 1 EUR = 1.4346 USD).

In April 2010 1,746,505 ordinary shares were transferred in exchange for Global Depositary Receipts("GDR"). 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 did not affect the number of outstanding shares, which remains unchanged at 67,893,218, while the number of GDRs admitted to trading on the London Stock Exchange's Regulated Market increased by 6,986,020. Following this conversion, 100% of the Group share capital is held in the form of GDRs.

38. BANK LOANS

Movement in the bank loans have been as follows:

	31 December 2010	31 December 2009
Opening balance	1,093,135	1,087,617
Repaid (Syndicate loan)	(1,100,000)	-
Received (Club loan)	798,166	-
Transaction costs capitalized (Club loan)	(12,500)	-
Amortization of transaction costs capitalized (Club loan)	1,223	5,518
Release of prepaid commission (Syndicate loan)	6,936	
Currency rate exchange differences	6,927	-
Closing balance	**793,887**	**1,093,135**

In September 2010 the Group signed and effected drawdown of the new club loan with a total amount of USD 800,000 for partially refinancing the existing USD 1,100,000 syndicated facility, which was due to mature in December 2010. The rest of the syndicated facility was refinanced through other existing facilities. The new club loan is for three years, consists of USD-denominated and RUR-denominated facilities (USD equivalent of USD 400,000 and RUR equivalent of USD 405,000) and will pay a margin of 250 basis points over MosPrime/LIBOR for both the RUR and USD lines. No collateral is provided for these facilities (Note 20).

39. CURRENT LIABILITIES

The current liabilities contain accrued expenses and non-income tax payable. In 2009 year current liabilities included a derivative liability (note 18).

There is income tax payable of 1,878 included in current liabilities.

40. SHARE BASED PAYMENT LIABILITY

Employee stock-option program

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 (note 28).

	2010	2009
Share based payments liability	(89,298)	(85,545)
Accounts receivable	109,898	94,012
Profit & loss	2,269	1,378

Employee stock plan

In 2010 year the group has introduced a new employee stock plan that consists of two parts: performance based award and award to be payable to participants if they stay with the Group during vesting period (2010-2012 year). 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 (note 28).

	2010	2009
Equity	(5,965)	-
Other accounts receivable	5,430	-
Profit & loss	696	-

41. OTHER INCOME AND EXPENSES AFTER TAX

	31 December 2010	31 December 2009
Interest income from subsidiaries	52,990	152,057
Other income	801	-
Interest expenses	(34,857)	(43,508)
General and administrative expenses	(12,614)	(12,101)
Result of financial instruments	10,186	7,201
Share based payment	(2,965)	(2,096)
Currency exchange rate differences	(1,616)	10,670
Income tax charge	(1,699)	(19,466)
Loss from sale of subsidiaries	(10,723)	-
	(497)	**92,757**

In 2010 year the Company sold 100% of shares of Paterson invest and Omega-97 with the loss of USD 10,723.

In accordance with the Dutch legislation article 2:382a the total audit fees related to the accounting organisation Pricewaterhouse Coopers Accountants N.V. amounted to USD 166 (2009: USD 179). Fees for other services amounted to USD 39 (2009: USD 47).

42. INCOME TAX EXPENSE

	31 December 2010	31 December 2009
Operating (loss)/profit	(497)	92,757
Deferred income tax credit/(expense)	468	(13,874)
Current income tax	(2,167)	(5,592)
Effective tax rate	(342)%	21%
Applicable tax rate	25.5%	25.5%

The effective tax rate differs from the applicable tax rate mainly 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/tax deductible.

The Company forms a fiscal unity with X5 Operations B.V. Under the Dutch Collection of State Taxes Act, the companies belonging to the fiscal unity are jointly and severally liable for all corporate income tax due by the Company. This liability is limited to the corporate income tax due for periods during which the companies are part of the fiscal unity.

43. DIRECTORS

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

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.

X5 Retail Group
Notes to Company's Financial Statements
for the year ended 31 December 2010
(expressed in thousands of US Dollars,
unless otherwise stated)

The Supervisory Board members received a remuneration of:

	Base salary 2010	Shared based expenses/ (income) 2010	
Mr. Hervé Defforey	332	1,797	
Mr. Mikhail Fridman	133	-	
Mr. David Gould	265	102	
Mr. Vladimir Ashurkov	133	-	
Mr. Alexander Tynkovan	159	61	
Mr. Stephan DuCharme	265	763	
Mr Criado-Pérez Trefault	-	(239)	Resigned 1 January 2010
Mr. Christian Couvreux	265	102	
	1,552	**2,586**	

Number of Employee Stock Options issued to Supervisory Board members:

	No. of options granted prior 2010	No. of options exercised in 2008/2009/2010	Cancellation	No. of options outstanding as at 31.12.2010
Mr. Hervé Defforey	142,500	30,000	-	112,500
Mr. Stephan DuCharme	32,500	-	-	32,500
Mr Criado-Pérez Trefault	62,500	20,000	42,500	-
	237,500	**50,000**	**42,500**	**145,000**

No options were granted to Supervisory Board in 2010 year.

Number of Restricted Stock Units issued to Supervisory Board members:

	Max. conditional RSU's granted	Min. conditional RSU's granted
Mr. Hervé Defforey	9,024	9,024
Mr. David Gould	7,219	7,219
Mr. Stephan DuCharme	7,219	7,219
Mr. Alexander Tynkovan	4,331	4,331
Mr. Christian Couvreux	7,219	7,219
	35,012	35,012

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 2010	Bonus 2010	Shared based expenses/ (income) 2010	
Mr. Lev Khasis	2,213	-	27,904	
Mr. Evgeny Kornilov	765	-	(190)	Resigned 29 September 2010
Mr. Frank Lhoëst	265	159	380	
	3,243	159	28,094	

Number of Share options issued to Management Board members:

	No. of options granted prior 2010	No. of options exercised in 2008/2009/2010	No. of options outstanding as at 31.12.2010
Mr. Lev Khasis	3,341,250	810,000	2,531,250
Mr. Evgeny Kornilov	470,000	470,000	-
Mr. Frank Lhoëst	20,000	20,000	-
	3,831,250	1,300,000	2,531,250

No options were granted to Management Board in 2010 year.

Number of Restricted Stock Units issued to Management Board members

	Max. conditional RSU's granted	Min. conditional RSU's granted
Mr. Lev Khasis	128,817	42,939
Mr. Frank Lhoëst	14,438	3,610
	143,255	**46,549**

The Company standalone financial statements include salaries and bonuses payable to statutory directors of USD 1,420 (2009: 423).

Per 10 March 2011 Mr. Lev Khasis stepped down as CEO of the Company but will remain with the Company through 01 June 2011.

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. CONTINGENT RIGHTS AND LIABILITIES

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 2010	31 December 2009
Irrevocable offer to holders of X5 Finance bonds	481,277	562,091
Guarantee for Agrotorg	1,018,650	-
Guarantee for TD Perekrestok	463,697	-
Irrevocable offer to holders of Pyaterochka Finance bonds	-	881

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.

47. SUBSEQUENT EVENTS

In March 2011 the Group received Sberbank approvals for partial conversion of existing indebtedness under Sberbank loans of the Group to fixed rate basis.

In April 2011 the Group received Sberbank approval for improvement of terms under Kopeyka credit agreements including but not limited to removal of collateral initially provided for these facilities by Kopeyka companies.

Amsterdam, 12 April 2011

Management Board*

Mr. Frank Lhoëst

Supervisory Board

Mr. Hervé Defforey

Mr. Mikhail Fridman

Mr. David Gould

Mr. Vladimir Ashurkov

Mr. Alexander Tynkovan

Mr. Stephan DuCharme

Mr. Christian Couvreux

* Mr. Andrei Gusev, acting CEO, was nominated as member of the Management Board and CEO on 10 March 2011, for appointment by the General Meeting of Shareholders in June 2011. Mr. Kieran Balfe was appointed to the Management Board as CFO on 22 February 2011. In view of Mr. Balfe's appointment after the end of the financial year 2010, the Company considers it inappropriate for him to sign this Annual Report.

OTHER INFORMATION

Auditor's report

Auditor's report is included on the page 172.

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 result	2010
Loss for the year transferred to other reserves	(497)

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

For subsequent events refer to Note 47.

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Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements 2010 of X5 Retail Group N.V., Amsterdam as set out on pages 83 to 170. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the statements of comprehensive income, changes in equity and 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 balance sheet as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2010, 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 Dutch Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 13 April 2011
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA

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