X5 Retail Group

Condensed Consolidated Interim Financial Statements and Review Report

31 March 2011

Provided under IAS 34 as adopted by the EU

Contents

Review report

To: the management board of X5 Retail Group N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information for the three-month period ended 31 March 2011 of X5 Retail Group N.V., Amsterdam, which comprises the condensed statement of financial position as at 31 March 2011, the condensed income statement, the condensed statement of comprehensive income, the condensed statement of changes in equity, the condensed statement of cash flows and the selected explanatory notes for the three-month period then ended. The management board is responsible for the preparation and presentation of this (condensed) interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, Review of Interim Financial Information Performed by the Independent Auditor of the company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 31 March 2011 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 25 May 2011
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam,
P.O. Box 90357, 1006 BJ Amsterdam, The Netherlands

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

	Note	31 March 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,862,674	3,602,412
Investment property		154,423	145,643
Goodwill	7	2,143,290	1,999,269
Intangible assets	6	744,475	718,854
Prepaid leases	6	89,207	86,419
Other non-current assets		7,849	7,457
Deferred tax assets		168,295	131,312
		7,170,213	6,691,366
Current assets			
Inventories of goods for resale		949,815	1,015,742
Indemnification asset		46,888	43,737
Loans originated		467	1,314
Current portion of non-current prepaid lease	6	17,475	13,443
Trade and other accounts receivable		427,189	381,849
Current income tax receivable		75,120	76,149
VAT and other taxes recoverable		293,153	262,828
Cash and cash equivalents		138,764	270,762
		1,948,871	2,065,824
TOTAL ASSETS		**9,119,084**	**8,757,190**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		93,712	93,712
Share premium		2,049,144	2,049,144
Cumulative translation reserve		(424,246)	(574,268)
Accumulated profit		567,915	470,980
Share based payment reserve	13	8,341	5,965
		2,294,866	**2,045,533**
Non-controlling interest		**1,448**	**1,501**
Total equity		**2,296,314**	**2,047,034**
Non-current liabilities			
Long-term borrowings	8	3,201,880	3,176,792
Long-term finance lease payable		2,574	2,737
Deferred tax liabilities		280,079	261,374
Long-term deferred revenue		144	135
Share-based payments liability	13	11,444	13,157
Other non-current liabilities		1,380	1,339
		3,497,501	3,455,534
Current liabilities			
Trade accounts payable		1,668,451	1,851,454
Short-term borrowings	8	593,392	508,004
Share-based payments liability	13	68,779	76,141
Short-term finance lease payables		1,968	1,680
Interest accrued		39,806	16,678
Short-term deferred revenue		17,227	13,165
Current income tax payable		55,028	47,249
Provisions and other liabilities		880,618	740,251
		3,325,269	3,254,622
Total liabilities		**6,822,770**	**6,710,156**
TOTAL EQUITY AND LIABILITIES		**9,119,084**	**8,757,190**

Andrey Gusev
Acting Chief Executive Officer
25 May 2011

Kieran Balfe
Chief Financial Officer
25 May 2011

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

	Note	Three months ended 31 March 2011	Three months ended 31 March 2010
Revenue		3,845,403	2,542,725
Cost of sales		(2,931,796)	(1,948,576)
Gross profit		**913,607**	**594,149**
Selling, general and administrative expenses		(783,921)	(510,844)
Lease/sublease and other income		45,011	27,910
Operating profit		**174,697**	**111,215**
Finance costs	12	(76,493)	(36,428)
Finance income	12	571	1,265
Share of income of associates		-	445
Net foreign exchange result		32,394	36,608
Profit before tax		**131,169**	**113,105**
Income tax expense	14	(34,287)	(34,223)
Profit for the period		**96,882**	**78,882**
Profit for the period attributable to:			
Equity holders of the parent		96,935	78,882
Non-controlling interest		(53)	-
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	10	**1.43**	**1.16**
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	10	**1.42**	**1.15**

Andrey Gusev
Acting Chief Executive Officer
25 May 2011

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Chief Financial Officer
25 May 2011

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

	Three months ended 31 March 2011	Three months ended 31 March 2010
Profit for the period	**96,882**	**78,882**
Other comprehensive income/(loss)		
Exchange differences on translation from functional to presentation currency	150,022	54,869
Cash flow hedges	-	5,265
Other comprehensive income for the period	**150,022**	**60,134**
Total comprehensive income for the period	**246,904**	**139,016**
Total comprehensive income/(loss) for the period attributable to:		
Equity holders of the parent	246,957	139,016
Non-controlling interest	(53)	-

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25 May 2011

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Chief Financial Officer
25 May 2011

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

	Note	Three months ended 31 March 2011	Three months ended 31 March 2010
Profit before tax		**131,169**	**113,105**
Adjustments for:			
Depreciation and amortisation	6	106,403	67,275
Loss on disposal of property, plant and equipment		4,055	2,931
Finance costs, net	12	75,922	35,163
Impairment of trade and other accounts receivable		13,657	844
Share-based payments (income)/expense	13	(4,478)	25,393
Amortisation of deferred expenses		3,002	2,907
Net foreign exchange gain		(32,394)	(36,608)
Income from associate		-	(445)
Other non-cash items		112	(294)
Net cash from operating activities before changes in working capital		**297,448**	**210,271**
(Increase)/Decrease in trade and other accounts receivable		(44,273)	42,913
Decrease in inventories		135,101	51,614
Decrease in trade accounts payable		(307,285)	(390,874)
Increase in other accounts payable and deferred revenue		96,547	24,322
Net cash generated from/(used in) operations		**177,538**	**(61,754)**
Interest paid		(52,879)	(16,656)
Interest received		354	921
Income tax paid		(50,085)	(51,971)
Net cash flows generated from/(used in) operating activities		**74,928**	**(129,460)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(93,308)	(44,174)
Proceeds from sale of property, plant and equipment		1,365	98
Non-current prepaid lease		(1,415)	(2,629)
Purchase of intangible assets		(4,845)	(5,228)
Net cash used in investing activities		**(98,203)**	**(51,933)**
Cash flows from financing activities:			
Proceeds from short-term loans		112,744	118,076
Repayment of short-term loans		(236,362)	(276,384)
Principal payments on finance lease obligations		(257)	(1,545)
Net cash used in financing activities		**(123,875)**	**(159,853)**
Effect of exchange rate changes on cash and cash equivalents		15,152	6,154
Net decrease in cash and cash equivalents		**(131,998)**	**(335,092)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		270,762	411,681
Net decrease in cash and cash equivalents		(131,998)	(335,092)
Cash and cash equivalents at the end of the period		**138,764**	**76,589**

Andrey Gusev
Acting Chief Executive Officer
25 May 2011

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

	Attributable to the shareholders of the Company								Non-controlling interest	Total
	Number of shares	**Share capital**	**Share premium**	**Hedging reserve**	**Share based payment reserve**	**Cumulative translation reserve**	**Accumulated profit**	**Total shareholders' equity**		
Balance as at 1 January 2010	**67,813,947**	**93,712**	**2,049,144**	**(10,108)**		**(559,576)**	**199,292**	**1,772,464**	**-**	**1,772,464**
Other comprehensive income for the period	-	-	-	5,265	-	54,869	-	60,134	-	60,134
Profit for the period	-	-	-	-	-	-	78,882	78,882	-	78,882
Total comprehensive income for the period	**-**	**-**	**-**	**5,265**	**-**	**54,869**	**78,882**	**139,016**	**-**	**139,016**
Balance as at 31 March 2010	**67,813,947**	**93,712**	**2,049,144**	**(4,843)**	**-**	**(504,707)**	**278,174**	**1,911,480**	**-**	**1,911,480**
Other comprehensive income/(loss) for the period	-	-	-	4,843	-	(69,561)	-	(64,718)	-	(64,718)
Profit/(loss) for the period	-	-	-	-	-	-	192,806	192,806	(442)	192,364
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**4,843**	**-**	**(69,561)**	**192,806**	**128,088**	**(442)**	**127,646**
Acquisition of subsidiaries									1,943	1,943
Share based compensation (Note 13)					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**
Other comprehensive income for the period	-	-	-	-	-	150,022	-	150,022		150,022
Profit/(loss) for the period	-	-	-	-	-	-	96,935	96,935	(53)	96,882
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**	**-**	**150,022**	**96,935**	**246,957**	**(53)**	**246,904**
Share based compensation (Note 13)	-	-	-	-	2,376	-	-	2,376	-	2,376
Balance as at 31 March 2011	**67,813,947**	**93,712**	**2,049,144**	**-**	**8,341**	**(424,246)**	**567,915**	**2,294,866**	**1,448**	**2,296,314**

Andrey Gusev
Acting Chief Executive Officer
25 May 2011

Kieran Balfe
Chief Financial Officer
25 May 2011

1 PRINCIPLE ACTIVITIES AND GROUP STRUCTURE

These condensed consolidated interim financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries (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 March 2011 the Group operated a retail chain of 2,545 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 2010: 2,469 soft-discount, supermarket, hypermarket stores and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Pyaterochka-Maxi" and "Kopeyka"). The Group's multiformat store network comprises 1,472 soft discount stores under "Pyaterochka" brand, 303 supermarkets under "Perekrestok" brand, 71 hypermarkets under "Karusel" and "Pyaterochka-Maxi" brands, 47 convenience stores under "Perekrestok-Express" brand and 652 stores under "Kopeyka" brand (31 December 2010: 1,392 soft discount stores under "Pyaterochka" brand, 301 supermarkets under "Perekrestok" brand and 71 hypermarkets under "Karusel" and "Pyaterochka-Max" brands, 45 convenience stores under "Perekrestok-Express" brand and 660 stores under "Kopeyka" brand).

In addition as at 31 March 2011, the Group's franchisees operated 690 stores (31 December 2010: 665 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As at 31 March 2011 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 March 2011 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 9). As at 31 March 2011 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

2.1 Basis of preparation

These condensed consolidated interim financial statements for the three months ended 31 March 2011 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2010 which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2010, except for the standards and interpretations which became effective for the Group from 1 January 2011 (Note 3) and change in accounting policy related to inventory accounting.

In 2011 the Group changed the method of inventory cost accounting from first-in, first-out (FIFO) to weighted average after implementation of SAP R3 platform, the estimated effect on the inventory cost is not significant.

Management prepared these condensed consolidated interim financial statements on a going concern basis. In making this judgment management considered the Group's financial position, current intentions, profitability of operations and access to financial resources (Note 16).

Income tax in the interim periods is accrued using the weighted average annual income tax rate that would be applicable to expected total annual earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 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 Ruble ("RUR") 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 condensed consolidated interim 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.

(b) Transactions and balances

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

At 31 March 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 28.4290 (31 December 2010: USD 1 = RUR 30.4769). Average rate for the three months ended 31 March 2011 was USD 1 = RUR 29.2698 (three months 2010: USD 1 = RUR 29.8903).

3 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new interpretations became effective for the Group from 1 January 2011:

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 amendment did not 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. IFRIC 19 did not 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 amendment did not have any material effect on its 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 10, Consolidated financial statements, IFRS 11, Joint arrangements, IFRS 12, Disclosure of interest in other entities, IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). 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.

3 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: 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 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; 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.

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

4 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.

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

4 SEGMENT REPORTING (continued)

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 Company 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 financial statements.

The accounting policies used for segments are the same as accounting policies applied for these condensed consolidated interim financial statements.

The segment information for the period ended 31 March 2011 is as follows:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Retail sales	3,840,751	2,536,633
Other revenue	4,652	6,092
Revenue	**3,845,403**	**2,542,725**
EBITDA	**281,100**	**178,490**
Capital expenditure	80,569	52,138

	31 March 2011	31 December 2010
Total assets	**9,119,084**	**8,757,190**
Total liabilities	**6,822,770**	**6,710,156**

Assets and liabilities are presented in a manner consistent with that in the condensed consolidated interim financial statements. Capital expenditure does not include additions to intangible assets (Note 6).

A reconciliation of EBITDA to total profit before tax is provided as follows:

	Three months ended 31 March 2011	Three months ended 31 March 2010
EBITDA	281,100	178,490
Depreciation and amortization	(106,403)	(67,275)
Operating profit	**174,697**	**111,215**
Finance cost, net	(75,922)	(35,163)
Net foreign exchange result	32,394	36,608
Share of income of associates	-	445
Profit before income tax	**131,169**	**113,105**
Income tax expense	(34,287)	(34,223)
Profit for the period	**96,882**	**78,882**

5 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 March 2011 are provided below. The ultimate controlling party is disclosed in Note 1.

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

5 RELATED PARTY TRANSACTIONS (continued)

Alfa Group

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

	Relationship	Three months ended 31 March 2011	Three months ended 31 March 2010
CTF Holdings Ltd.	Ultimate parent company		
Management services received		348	285
Recharged expenses		7	294
Alfa-Bank	Under common control		
Interest expense on loan received		3,433	752
Commission income		1,828	-
Interest income		103	664
Bank charges		359	267
Rent revenue		109	232
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services received		1,477	1,190
Commission for mobile phone payments processing rendered by the Group to VimpelCom		235	226
Rent revenue		50	29
AlfaInsurance	Under common control		
Insurance expenses		64	64
Megafon	Under common control		
Commission for mobile phone payments processing rendered by the Group to Megafon		168	143
Rent revenue		74	75

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

	Relationship	31 March 2011	31 December 2010
CTF Holding Ltd.	Ultimate parent company		
Other accounts payable		-	7
Alfa-Bank	Under common control		
Cash and cash equivalents		17,035	43,274
Receivable from related party		2,004	306
Short-term loans payable		116,079	127,966
Other accounts payable		358	307
Long-term loans payable		105,526	98,435
AlfaInsurance	Under common control		
Receivable from related party		9	69
Other accounts payable		128	-
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		201	346
Other accounts payable		856	743
Megafon	Under common control		
Receivable from related party		129	189
Other accounts payable		329	95

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

5 RELATED PARTY TRANSACTIONS (continued)

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 15,100 million or USD 531,148 (31 December 2010: RUR 15,100 million or USD 495,457). At 31 March 2011 the Group's liability under this credit line amounted to USD 221,605 with interest rates 3.60 - 7.83% p.a. (31 December 2010: USD 226,401), available credit line was USD 309,543 (31 December 2010: USD 269,056). 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 executive management personnel

The Group's key management personnel consists of Management and Supervisory Board members, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. Members of the Management Board and Supervisory Board of the Group receive compensation in the form of short-term compensation in cash (including, for Management Board members, an annual cash bonus and share-based payments (Note 13). For the three months ended 31 March 2011 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 1,852 (three months ended 31 March 2010: USD 2,141), including accrued annual target bonuses of USD 537 (three months ended 31 March 2010: USD 845) payable on an annual basis subject to meeting annual performance targets. As at 31 March 2011 the total number of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 3,088,750 (31 December 2010: 2,676,250 GDRs) and conditional rights under LTI plan was 147,163. The total intrinsic value of vested share options amounted to USD 49,993 as at 31 March 2011 (31 December 2010: USD 57,038).

6 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2011		**2010**	
	Property, plant and equipment	**Intangible assets**	**Property, plant and equipment**	**Intangible assets**
Cost				
Balance as at 1 January	4,362,204	903,198	3,550,018	633,323
Additions	80,569	4,845	52,138	5,251
Disposals	(7,674)	(235)	(14,342)	(807)
Translation movement	309,135	65,184	106,939	19,021
Balance as at 31 March	**4,744,234**	**972,992**	3,694,753	**656,788**
Accumulated Depreciation				
Balance as at 1 January	(759,792)	(184,344)	(559,932)	(137,212)
Depreciation charge	(74,694)	(30,178)	(52,196)	(13,641)
Disposals	2,736	235	4,121	807
Translation movement	(49,810)	(14,230)	(17,559)	(4,159)
Balance as at 31 March	**(881,560)**	**(228,517)**	**(625,566)**	**(154,205)**
Net Book Value				
Balance as at 1 January	**3,602,412**	**718,854**	**2,990,086**	**496,111**
Balance as at 31 March	**3,862,674**	**744,475**	**3,069,187**	**502,583**

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 17). Certain land leases are prepaid for a 49 year term. Such prepayments are presented as prepaid leases in the statement of financial position and amount to USD 106,682 (31 December 2010: USD 99,862). Loans were collaterized by land and buildings including investment property with a net book value of USD 220,081 (31 December 2010: USD 207,045) (Note 8).

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

7 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	2011	2010
Cost:		
Gross book value at 1 January	4,175,086	2,970,518
Translation to presentation currency	300,754	89,064
Gross book value at 31 March	**4,475,840**	**3,059,582**
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,175,817)	(2,192,557)
Translation to presentation currency	(156,733)	(65,739)
Accumulated impairment losses at 31 March	**(2,332,550)**	**(2,258,296)**
Carrying amount at 31 March	**2,143,290**	**801,286**
Carrying amount at 1 January	**1,999,269**	**777,961**

Goodwill Impairment Test

For the purposes of impairment testing, goodwill is allocated to a single cash-generating unit (CGU) being the retailing operation in Russia. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The CGU to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the CGU might be impaired. Goodwill is tested for impairment at the CGU level by comparing carrying values of CGU assets including allocated goodwill 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.

There was no impairment of goodwill from 31 December 2008. No events indicating triggers of goodwill impairment occurred in the three months ended 31 March 2011. The Group will perform an annual impairment test of goodwill at 31 December 2011.

8 BORROWINGS

		31 March 2011			**31 December 2010**		
	Interest rate, % p.a.	**Current During 1 year**	**Non-current In 1 to 3 years**	**Total**	**Current During 1 year**	**Non-current In 1 to 3 years**	**Total**
USD Club loan	USD Libor+2.5%	-	389,021	389,021	-	388,595	388,595
RUR Club loan	MosPrime +2.5%	-	434,487	434,487	-	405,292	405,292
RUR Bonds	7.95% - 18.46%	410,446	456,921	867,367	253,589	556,769	810,358
RUR Bilateral Loans	MosPrime +2.7% - 3.1%	8,146	1,601,355	1,609,501	5,790	1,494,738	1,500,528
RUR Bilateral Loans	7.8%-10.5%	56,703	320,096	376,799	36,620	232,963	269,583
RUR Bilateral Loans	3.6% - 3.7%	116,097	-	116,097	210,005	98,435	308,440
USD Non-bank loans	12%	2,000	-	2,000	2,000	-	2,000
Total borrowings		**593,392**	**3,201,880**	**3,795,272**	**508,004**	**3,176,792**	**3,684,796**

All borrowings at 31 March 2011 are shown net of related transaction costs of USD 29,802 which are amortized over the term of loans using the effective interest method (31 December 2010: USD 30,219).

In accordance with loan 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).

9 SHARE CAPITAL

As at 31 March 2011 the Group had 190,000,000 authorized ordinary shares of which 67,813,947 ordinary shares are outstanding and 79,271 ordinary shares are held as treasury stock.

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

10 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:

	Three months ended 31 March 2011	Three months ended 31 March 2010
Profit attributable to equity holders of the Parent	96,935	78,882
Weighted average number of ordinary shares in issue	67,813,947	67,813,947
Effect of share options granted to employees	402,716	494,681
Weighted average number of ordinary shares for the purposes of diluted earnings per share	68,216,663	68,308,628
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**1.43**	**1.16**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**1.42**	**1.15**

11 EXPENSES

Among other expenses charged for the three months ended 31 March 2011 are operating lease expenses, which include USD 139,169 of minimum lease payments (three months ended 31 March 2010: USD 85,682) and contingent rents of USD 5,609 (three months ended 31 March 2010: USD 5,233).

12 FINANCE INCOME AND COSTS

	Three months ended 31 March 2011	Three months ended 31 March 2010
Interest expense	74,123	32,615
Interest income	(316)	(1,265)
Other finance costs, net	2,115	3,813
	75,922	**35,163**

13 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 three months ended 31 March 2011 the Group recognized income related to the ESOP in the amount of USD 8,372 (expenses during three months ended 31 March 2010: USD 25,393). At 31 March 2011 the share-based payments liability amounted to USD 80,223 (31 December 2010: USD 89,298). The equity component was effectively zero at 31 March 2011 (31 December 2010: zero). The total intrinsic value of vested share options amounted to USD 66,374 as at 31 March 2011 (31 December 2010: USD 83,162).

Details of the share options outstanding during the three months ended 31 March 2011 are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	4,056,550	25.7
Exercised during the period	(6,600)	18.4
Outstanding at the end of the period	**4,049,950**	**25.8**
Exercisable at 31 March 2011	4,049,950	25.8

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

13 SHARE-BASED PAYMENTS (continued)

Employee stock option program(continued)

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 March 2011 were as follows:

Expected GDR price	45.23
Expected volatility	54%
Risk-free interest rate	0.2%
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 three months ended 31 March 2011 the Group recognized expenses related to the RSU plan in the amount of USD 3,894. At 31 March 2011 the equity component was USD 8,341. 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 three months ended 31 March 2011 are as follows:

	Number of conditional rights	**Weighted average fair value, USD**
Outstanding at the beginning of the period	832,702	35.50
Forfeited during the period	(335,779)	35.50
Outstanding at the end of the period	**496,923**	**35.50**

14 INCOME TAX

	Three months ended 31 March 2011	**Three months ended 31 March 2010**
Current income tax charge	(61,285)	(29,115)
Deferred income tax benefit/(expenses)	26,998	(5,108)
Income tax expense	**(34,287)**	**(34,223)**

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

15 SEASONALITY

The Group experiences seasonal effects on its business – increased customer activity in December results in an increase in sales made by the Group. The majority of expenses have the same trend as sales with the following exceptions:

- Volume of repair and maintenance work increases in the May-September period as the ambient temperature is conductive to this activity. In addition, the lower level of customer activity enables the Group to minimize missed profits;
- Utility expenses are normally higher during winter period due to increased electricity and heating service consumption.

16 FINANCIAL RISKS MANAGEMENT

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 (Note 8). 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).

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. Interest rate risk (MosPrime and LIBOR rate risk) arising from floating rate borrowings is managed through the balanced credit portfolio, using different types of financing instruments on the basis of fixed and floating rates.

Liquidity risk

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

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

	31 March 2011		31 December 2010	
	During 1 year	**In 1 to 3 years**	**During 1 year**	**In 1 to 3 years**
Borrowings	883,342	3,530,686	782,376	3,554,263
Trade accounts payable	1,668,451	-	1,851,454	-
Finance lease liabilities	1,968	2,574	1,680	2,737
Other finance liabilities	455,881	-	438,165	-
	3,009,642	**3,533,260**	**3,073,675**	**3,557,000**

At 31 March 2011 the Group has negative working capital of USD 1,376,398 (31 December 2010: USD 1,188,798) including short-term borrowings of USD 593,392 (31 December 2010: USD 508,004).

At 31 March 2011 the Group had available bank credit lines of USD 1,182,255 (31 December 2010: USD 1,129,063).

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

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

16 FINANCIAL RISKS MANAGEMENT (continued)

Liquidity risk (continued)

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.

17 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 March 2011, the Group operated 1,684 stores through rented premises (31 December 2010: 1,612 stores). 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 RUR and normally calculated as a percentage of turnovers. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable fees.

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 March 2011 (present value)	31 December 2010 (present value)	31 March 2011 (nominal value)	31 December 2010 (nominal value)
During 1 year	323,012	309,303	346,392	331,691
In 2 to 5 years	678,304	646,304	993,655	947,133
Thereafter	259,902	264,161	821,197	825,790
	1,261,218	**1,219,768**	**2,161,244**	**2,104,614**

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

Capital expenditure commitments

At 31 March 2011 the Group contracted for capital expenditure of USD 78,804 (net of VAT) (31 December 2010: USD 83,425).

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.

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

17 COMMITMENTS AND CONTINGENCIES (continued)

Taxation environment (continued)

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.

At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 177,812 at 31 March 2011 (31 December 2010: USD 165,896) in these condensed consolidated interim financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2010	**147,087**
Increases due to acquisitions during the year recorded as part of the purchase price allocation	78,414
Release of provision	(60,262)
Translation movement	657
Balance at 31 December 2010	**165,896**
Translation movement	11,916
Balance at 31 March 2011	**177,812**

18 SUBSEQUENT EVENTS

In April 2011 the Group sold Internet Retail, its e-commerce unit which operated online stores. The result from disposal is not significant.

In May 2011 the Group acquired 8.45% stake in A5 pharmacy chain. X5 retains the right to purchase up to 100% of the chain until the end of 2012. The cost of acquisition is not significant.

In April 2011 the Group signed with Sberbank new agreement for partial conversion of existing indebtedness under Sberbank loans of the Group in the amount of RUR 15bn 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.