X5 RETAIL GROUP INTERIM REPORT

Half Year 2012

Amsterdam, 21 August 2012 - X5 Retail Group N.V., ("X5" or the "Company") Russia's largest retailer in terms of sales (LSE ticker: "FIVE"), announced today the release of the Company's Interim Report for the Half Year 2012.

Q2 2012 Highlights

- Net sales increased 9.8% year-on-year (y-o-y) in Russian Rouble (RUR) terms to RUR 123,637 million (mln) and decreased 0.8% in US Dollar (USD) terms to USD 3,988 mln;
- Gross profit totaled USD 910 mln, resulting in gross profit margin of 22.8%;
- EBITDA amounted to USD 280 mln, or 7.0% of total net sales; and
- Net profit reached USD 69 mln, for a net profit margin of 1.7%.

H1 2012 Highlights

- Net sales increased 6.9% y-o-y in RUR terms to RUR 240,781 mln and decreased 0.1% in USD terms to USD 7,859 mln;
- Gross profit totaled USD 1,858 mln, resulting in gross profit margin of 23.6%;
- EBITDA amounted to USD 554 mln, or 7.1% of total net sales; and
- Net profit reached USD 135 mln, for a net profit margin of 1.7%.

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Income Statement – Key Trends and Developments

Income Statement Highlights[(1)(2)]

USD mln	Q2 2012	Q2 2011	*% change, y-o-y*	H1 2012	H1 2011	*% change, y-o-y*
Net Sales	**3,987.9**	**4,021.4**	***(0.8%)***	**7,858.7**	**7,866.8**	***(0.1%)***
incl. Retail	3,981.8	4,006.0	*(0.6%)*	7,843.8	7,832.1	*0.1%*
Gross Profit	**910.3**	**946.2**	***(3.8%)***	**1,857.5**	**1,859.8**	***(0.1%)***
Gross Profit Margin, %	*22.8%*	*23.5%*		*23.6%*	*23.6%*	
EBITDA	**280.3**	**284.9**	***(1.6%)***	**554.3**	**566.0**	***(2.1%)***
EBITDA Margin, %	*7.0%*	*7.1%*		*7.1%*	*7.2%*	
Operating Profit	**167.5**	**172.9**	***(3.1%)***	**338.5**	**347.6**	***(2.6%)***
Operating Profit Margin, %	*4.2%*	*4.3%*		*4.3%*	*4.4%*	
Net Profit	**68.9**	**73.5**	***(6.2%)***	**135.2**	**170.3**	***(20.6%)***
Net Profit Margin, %	*1.7%*	*1.8%*		*1.7%*	*2.2%*	

Net Sales & Gross Profit Margin Performance

USD mln	Q2 2012	Q2 2011	*% change, y-o-y*	H1 2012	H1 2011	*% change, y-o-y*
Net Sales	**3,987.9**	**4,021.4**	***(0.8%)***	**7,858.7**	**7,866.8**	***(0.1%)***
incl. Retail	3,981.8	4,006.0	*(0.6%)*	7,843.8	7,832.1	*0.1%*
Soft Discounters	2,619.9	2,502.2	*4.7%*	5,095.0	4,880.9	*4.4%*
Supermarkets	840.0	881.6	*(4.7%)*	1,694.9	1,740.9	*(2.6%)*
Hypermarkets	483.8	594.7	*(18.7%)*	984.9	1,153.4	*(14.6%)*
Convenience stores	35.8	26.3	*35.9%*	65.7	49.1	*33.9%*
Online[(3)]	2.3	1.2	*89.7%*	3.2	7.8	*(59.1%)*
Gross Profit	**910.3**	**946.2**	***(3.8%)***	**1,857.5**	**1,859.8**	***(0.1%)***
Gross Profit Margin, %	*22.8%*	*23.5%*		*23.6%*	*23.6%*	

In Q2 and H1 2012, X5's net sales in RUR terms increased y-o-y by 9.8% and 6.9%, respectively, primarily due to organic expansion of new stores and selling space. Net sales reported in USD for the same periods decreased by 0.8% and 0.1%, respectively, due to exchange rate differences between the RUR, X5's operational currency, and the USD, the Company's presentation currency.

In Q2 2012, gross profit margin totaled 22.8%, a 70 basis point (bp) decrease compared to Q2 2011 primarily due to an increase in logistics' expense related to start-up costs for direct imports and opening of a new distribution center as well as shrinkage associated with the seasonal peak in supplies of fruits and vegetables and the effect of inventory clean-up at our warehouses.

The gross margin in H1 2012 amounted to 23.6% and was in line with the gross margin in H1 2011, primarily due to a trade-off between working capital and margins in Q1 2012, which offset the increase in logistics' expense in Q2 2012.

(1) Please note that in this and other tables of the press release, immaterial deviations in the calculation of % changes, subtotals and totals are explained by rounding.

(2) X5's operational currency is the Russian Rouble (RUR), while the Company's presentation currency is the US Dollar (USD). As the RUR/USD exchange rate has substantially changed in the past twelve months, comparisons of the Company's financial results either with the corresponding period a year ago (for income statement) or with the beginning of the year (for statement of financial position) have been substantially affected by these movements. For more information please see page 6 of this press release.

(3) We disposed of the online retail brands, "bolero.ru" and "003.ru" on 29 April 2011. In mid-February 2012, X5 launched "E5.ru" brand, the Company's revised online retail business model.

Selling, General and Administrative (SG&A) Expenses

USD mln	Q2 2012	Q2 2011	% change, y-o-y	H1 2012	H1 2011	% change, y-o-y
Staff Costs	(324.5)	(320.5)	*1.3%*	(666.9)	(653.0)	*2.1%*
% of Net Sales	*8.1%*	*8.0%*		*8.5%*	*8.3%*	
Lease Expenses	(144.6)	(146.8)	*(1.5%)*	(295.9)	(282.7)	*4.7%*
% of Net Sales	*3.6%*	*3.7%*		*3.8%*	*3.6%*	
Other Store Costs	(61.9)	(56.2)	*10.2%*	(123.2)	(104.2)	*18.2%*
% of Net Sales	*1.6%*	*1.4%*		*1.6%*	*1.3%*	
D&A	(112.8)	(112.0)	*0.7%*	(215.8)	(218.4)	*(1.2%)*
% of Net Sales	*2.8%*	*2.8%*		*2.7%*	*2.8%*	
Utilities	(80.6)	(88.9)	*(9.3%)*	(171.7)	(174.3)	*(1.5%)*
% of Net Sales	*2.0%*	*2.2%*		*2.2%*	*2.2%*	
Third Party Services	(34.3)	(31.1)	*10.0%*	(58.0)	(55.8)	*3.9%*
% of Net Sales	*0.9%*	*0.8%*		*0.7%*	*0.7%*	
Other Expenses	(26.1)	(67.0)	*(61.0%)*	(72.1)	(117.9)	*(38.9%)*
% of Net Sales	*0.7%*	*1.7%*		*0.9%*	*1.5%*	
Total SG&A	**(784.8)**	**(822.5)**	***(4.6%)***	**(1,603.7)**	**(1,606.5)**	***(0.2%)***
% of Net Sales	***19.7%***	***20.5%***		***20.4%***	***20.4%***	

In Q2 2012, SG&A expenses, as a percentage of net sales, decreased by 80 bp y-o-y to 19.7% primarily due to a decrease in other expenses.

Staff costs, as a percentage of net sales, increased by 10 bp y-o-y in Q2 2012, to 8.1% primarily driven by an increase in store personnel, associated with the increase in new store openings, and a net expense recognized on the Company's long-term incentive plans, Employee Stock Option Program (ESOP) and Restricted Stock Unit Plan (RSUP), resulting from the remeasurement of the associated ESOP and RSUP liabilities at 30 June 2012, compared to income recognized on the plans and a reversal of accrued bonuses in the corresponding period of 2011. The increase in store personnel accounted for 17 bp of the increase in staff costs while the ESOP expense added 55 bp. Staff costs in Q2 2012 benefited from the reclassification of security and maintenance expenses from staff costs to other store costs, which reduced staff costs as percentage of net sales by 31 bp, as well as a decrease in the social tax rate from 34% to 30%, effective from 1 January 2012, reducing staff costs as a percentage of net sales by 31 bp.

The Company's Q2 2012 lease expenses, as a percentage of net sales, decreased by 10 bp y-o-y to 3.6% due to the impact of temporary store closures during the integration of Kopeyka in Q2 2011. As a percentage of X5's total real estate portfolio, leased space accounted for 54.4% at 30 June 2012 compared to 52.0% in the corresponding period of 2011.

In Q2 2012, other store costs increased, as a percentage of net sales, by 20 bp y-o-y to 1.6% mainly due to the reclassification of security and maintenance expenses from staff costs to other store costs. The increase was partly offset by preventive maintenance initiatives carried out at the stores.

Utilities expense, as a percentage of net sales, decreased by 20 bp y-o-y in Q2 2012, to 2.0% due to the impact of cost-saving initiatives, such as installation of electricity and water consumption meters in all stores at the end of 2011, which provide the Company with greater cost control over utilities expense.

Third party services expense in Q2 2012 increased, as a percentage of net sales, by 10 bp y-o-y due to an increase in advertising activity associated with promotional offers at the stores.

In Q2 2012, other expenses, as a percentage of sales, decreased by 100 bp primarily due to the completion of the Kopeyka integration in Q3 2011, a decrease in bad debt provision and the release of historical provisions for legal and tax risks.

As a result of the factors discussed above, EBITDA in Q2 2012 totaled USD 280 mln, or 7.0% of net sales.

In H1 2012 and 2011, SG&A expenses as a percentage of net sales amounted to 20.4%. In the 2012 period, SG&A expenses related to staff costs, lease expenses, other store costs and third-party services were higher y-o-y due to the increase in store openings and promotional activities in H1 2012 compared to H1 2011. The increases were equally offset by a decrease in other expenses related to Kopeyka integration costs and cost saving initiatives related to utilities expenses.

As a result of the factors discussed above, EBITDA in H1 2012 totaled USD 554 mln, or 7.1% of net sales

Non-Operating Gains and Losses

USD mln	Q2 2012	Q2 2011	*% change y-o-y*	H1 2012	H1 2011	*% change y-o-y*
Operating Profit	**167.5**	**172.9**	***(3.1%)***	**338.5**	**347.6**	***(2.6%)***
Finance Costs (Net)	(75.5)	(77.5)	*(2.5%)*	(155.0)	(153.4)	*1.1%*
Net FX Result	0.5	4.2	*(87.2%)*	(0.6)	36.6	*n/a*
Share of Loss of Associates	-	-	*n/a*	(0.1)	-	*n/a*
Profit before Tax	**92.5**	**99.7**	***(7.2%)***	**182.9**	**230.8**	***(20.8%)***
Income Tax Expense	(23.6)	(26.2)	*(9.8%)*	(47.7)	(60.5)	*(21.1%)*
Net Profit	**68.9**	**73.5**	*(6.2%)*	**135.2**	**170.3**	*(20.6%)*
Net Profit Margin, %	*1.7%*	*1.8%*		*1.7%*	*2.2%*	

Finance Costs

Net finance costs in Q2 2012 decreased by 2.5% y-o-y in USD terms, and increased by 8.1% in RUR terms. The weighted average effective interest rate on X5's total debt for H1 2012 increased to 8.5% per annum from 7.8% per annum in H1 2011. The increase was primarily due to the conversion of the Company's USD-denominated debt into RUR by year-end 2011 and the generally higher interest rates charged on RUR borrowings.

Income Tax

In Q2 and H1 2012, X5's effective tax rate was 25.5% and 26.1%, respectively, compared to 26.3% and 26.2%, respectively, in the corresponding periods of 2011. X5's effective tax rate is higher than the Russian statutory tax rate of 20.0% as inventory shrinkage and ESOP expense are only partially tax deductible in Russia.

Consolidated Cash Flow – Key Trends and Developments

USD mln	Q2 2012	Q2 2011	*% change y-o-y*	H1 2012	H1 2011	*% change y-o-y*
Net Cash Flows Generated from /(Used in) Operating Activities	68.8	(65.6)	*n/a*	(8.4)	9.3	*n/a*
Net Cash from Operating Activities before Changes in Working Capital	*275.0*	*293.3*	*(6.2%)*	*564.8*	*590.7*	*(4.4%)*
Change in Working Capital	*(85.3)*	*(241.7)*	*(64.7%)*	*(325.8)*	*(361.6)*	*(9.9%)*
Net Interest and Income Tax Paid	*(121.0)*	*(117.2)*	*3.2%*	*(247.4)*	*(219.8)*	*12.5%*
Net Cash Used in Investing Activities	(194.5)	(171.6)	*13.3%*	(374.9)	(269.8)	*39.0%*
Net Cash Generated from Financing Activities	125.5	244.7	*(48.7%)*	157.1	120.8	*30.0%*
Net (Decrease)/Increase in Cash & Cash Equivalents	**(0.2)**	**7.5**	***n/a***	**(226.1)**	**(139.7)**	***61.9%***

In Q2 2012, net cash flows generated from operating activities totaled USD 69 mln compared to net cash flows used in operating activities of USD 66 mln in the corresponding period of 2011. The increase was primarily due to changes in working capital. In Q2 2012, changes in working capital resulted in a negative effect on cash flows from operating activity of USD 85.3 mln compared to a negative effect of 241.7 mln in Q2 2011.

The change in working capital in Q2 2012 was primarily driven by an increase in VAT receivables, driven by internal improvements in processing VAT claims on purchases resulting in a lower net VAT payable. The decrease in Q2 2012 VAT payable was partially offset by an increase in trade accounts payable.

Net cash flows used in operating activities in H1 2012 amounted to USD 8.4 mln compared to net cash flow from operating activities of USD 9.3 mln in H1 2011. The decrease was due to changes in working capital, primarily the decrease in VAT payable mentioned above, as well as an increase in interest expense in H1 2012 due to the conversion of USD-denominated debt into RUR by year-end 2011 and the generally higher interest rates charged on RUR borrowings.

Net cash used in investing activities totaled USD 194 mln and USD 375 mln in Q2 and H1 2012, respectively, compared to USD 172 mln and USD 270 mln, respectively, for the corresponding periods in 2011 due to an increase in store openings in the 2012 periods.

Net cash generated from financing activities in Q2 and H1 of 2012 amounted to USD 126 mln and USD 157 mln, respectively, and was related to short-term credit facilities drawn to finance working capital needs.

Liquidity Update

USD mln	30-Jun-12	% in total	31-Mar-12	% in total	31-Dec-11	% in total
Total Debt	**3,691.4**		**3,997.1**		**3,610.0**	
Short-Term Debt	1,170.1	*31.7%*	1,091.9	*27.3%*	913.2	*25.3%*
Long-Term Debt	2,521.3	*68.3%*	2,905.2	*72.7%*	2,696.9	*74.7%*
Net Debt/(Net Cash)	**3,525.3**		**3,808.3**		**3,225.0**	
Denominated in USD	0.0	*n/a*	(4.0)	*n/a*	(9.5)	*n/a*
Denominated in RUR	3,525.3	*100.0%*	3,812.4	*100.0%*	3,234.5	*100.0%*
FX, EoP	32.82		29.33		32.20	
Net Debt/EBITDA (RUR)[(1)]	**3.40x**		**3.36x**		**3.13x**	

X5's net debt to EBITDA ratio increased to 3.40x compared to 3.13x at year-end 2011 due to seasonal short-term movements in cash & cash equivalents and borrowings. The Company reported total debt of USD 3,691 mln (at a RUR exchange rate of 32.82), of which 31.7% was short-term (USD 1,170 mln) and 68.3% long-term debt (USD 2,521 mln).

As of 30 June 2012, the Company had access to RUR-denominated credit facilities of approximately RUR 151.3 bln (approximately USD 4.6 bln). Of this amount, approximately RUR 60.7 bln (USD 1.8 bln) represented available undrawn credit lines with major Russian and international banks.

Effect of RUR/USD Exchange Rate Movements on the Presentation of X5's Results

X5's operational currency is the Russian Rouble (RUR), while the Company's presentation currency is the U.S. Dollar (USD). As the RUR/USD exchange rate has substantially changed in the past twelve months, comparisons of the Company's financial results, either with the corresponding period a year ago (for income statement) or with the beginning of the year (for statement of financial position), have been substantially affected by these movements:

- Comparisons of income statement figures with respective period last year reflect a negative translational effect from RUR/USD rate movements, resulting in a difference between y-o-y change in RUR and the respective change in USD of approximately 7% for H1 2012. For reference, to translate the Company's income statement from RUR to USD for presentation purposes, the Company applied a RUR/USD rate of 30.64 for H1 2012 (average for the period) and a RUR/USD rate of 28.62 for H1 2011 (average for the period).
- Comparison of the statement of financial position as at 30 June 2012 to the statement of financial position as at 31 December 2011 reflects a negative translational effect from the RUR/USD exchange rate movement, resulting in a difference between the change in RUR and the respective change in USD of approximately 2%. For reference, to translate the statement of financial position from RUR to USD for presentation purposes, the Company applied a RUR/USD exchange rate of 32.82 as at 30 June 2012 and RUR/USD exchange rate of 32.20 as at 31 December 2011.

(1) Debt covenants are set in RUR terms in accordance with loan facilities the Company maintains.

Related Party Transactions

For a description of the related party transactions entered into by the Company we refer to note 7 of the condensed consolidated interim financial statements.

Risks and Uncertainties

X5's risk management program provides executive management with a periodic and in-depth understanding of X5's key business risks and the risk management and internal controls in place to mitigate these risks. The Company has assessed the risks for the second half of 2012 and believes that the risks identified are in line with those presented in the Annual Report 2011. For a detailed description of all risk factors, we refer to the Annual Report 2011. For a description of the financial risks faced by the Company we refer to note 19 of the condensed consolidated interim financial statements and the Company's Annual Report 2011.

Directors Responsibility Statement

The Management Board hereby declares that to the best of their knowledge, the half-yearly financial statements included in this interim report, which have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the half-yearly management report includes a fair review of the information required pursuant to section 5:25d (8) / (9) of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Frank Lhoest
Corporate Secretary
17 August 2012

Kieran Balfe
Chief Financial Officer
17 August 2012

X5 Retail Group N.V.

Condensed Consolidated Interim Financial Statements and Review Report

Six months ended 30 June 2012

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 statements for the six-month period ended 30 June 2012 of X5 Retail Group N.V., Amsterdam, which comprises the condensed consolidated interim statement of financial position as at 30 June 2012, the condensed consolidated interim income statement, the condensed consolidated interim statements of comprehensive income, changes in equity, cash flows and the selected explanatory notes for the six-month period then ended. The management board is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements 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 statements as at 30 June 2012 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 17 August 2012
PricewaterhouseCoopers Accountants N.V.

Peter Dams RA

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X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Financial Position at 30 June 2012
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	30 June 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	3,902,330	3,824,893
Investment property		134,802	141,034
Goodwill	9	1,936,069	1,957,876
Intangible assets	8	565,991	601,026
Prepaid leases	8	62,971	71,017
Investment in associates		1,186	1,331
Available-for-sale investments		6,412	6,535
Other non-current assets		38,121	18,530
Deferred tax assets		105,123	136,801
		6,753,005	6,759,043
Current assets			
Inventories of goods for resale		837,871	895,007
Indemnification asset		48,994	52,149
Loans originated		17,773	19,811
Current portion of non-current prepaid lease	8	11,056	10,051
Trade and other accounts receivable		339,870	361,783
Current income tax receivable		49,463	31,438
VAT and other taxes recoverable		331,949	295,913
Cash and cash equivalents		166,049	385,001
		1,803,025	2,051,153
TOTAL ASSETS		**8,556,030**	**8,810,196**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		93,717	93,717
Share premium		2,049,592	2,049,592
Cumulative translation reserve		(760,708)	(709,693)
Accumulated profit		889,745	754,580
Share-based payment reserve	16	9,603	7,776
Total equity		**2,281,949**	**2,195,972**
Non-current liabilities			
Long-term borrowings	11	2,521,321	2,696,877
Long-term finance lease payable		729	1,347
Deferred tax liabilities		216,004	207,356
Long-term deferred revenue		234	1,261
Other non-current liabilities		3,335	3,175
		2,741,623	2,910,016
Current liabilities			
Trade accounts payable		1,691,143	1,906,365
Short-term borrowings	11	1,170,051	913,160
Share-based payments liability	16	2,078	2,396
Short-term finance lease payables		1,972	2,218
Interest accrued		19,806	12,422
Short-term deferred revenue		8,821	13,734
Current income tax liability and accrued reserves		20,884	52,187
Provisions and other liabilities	10	617,703	801,726
		3,532,458	3,704,208
Total liabilities		**6,274,081**	**6,614,224**
TOTAL EQUITY AND LIABILITIES		**8,556,030**	**8,810,196**

The accompanying Notes on pages 6 to 18 are an integral part of these condensed consolidated interim financial statements.

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Financial Position at 30 June 2012
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue		7,858,658	7,866,793
Cost of sales		(6,001,127)	(6,006,948)
Gross profit		**1,857,531**	**1,859,845**
Selling, general and administrative expenses		(1,603,718)	(1,606,463)
Lease/sublease and other income		84,678	94,187
Operating profit		**338,491**	**347,569**
Finance costs	15	(161,462)	(155,225)
Finance income	15	6,466	1,851
Share of loss of associates		(128)	-
Net foreign exchange result		(487)	36,637
Profit before tax		**182,880**	**230,832**
Income tax expense	17	(47,715)	(60,493)
Profit for the period		**135,165**	**170,339**
Profit for the period attributable to:			
Equity holders of the parent		135,165	170,241
Non-controlling interest		-	98
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	13	**1.99**	**2.51**
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)	13	**1.99**	**2.51**

The accompanying Notes on pages 6 to 18 are an integral part of these condensed consolidated interim financial statements.

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Financial Position at 30 June 2012
(expressed in thousands of US Dollars, unless otherwise stated)

	Six months ended	
	30 June 2012	**30 June 2011**
Profit for the period	**135,165**	**170,339**
Other comprehensive income		
Exchange differences on translation from functional to presentation currency	(51,015)	178,021
Other comprehensive income/(loss) for the period	**(51,015)**	**178,021**
Total comprehensive income/(loss) for the period	**84,150**	**348,360**
Total comprehensive income/(loss) for the period attributable to:		
Equity holders of the parent	84,150	348,262
Non-controlling interest	-	98

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Financial Position at 30 June 2012
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Profit before tax		**182,880**	**230,832**
Adjustments for:			
Depreciation and amortisation	8	215,831	218,408
(Gain)/loss on disposal of non-current assets		(878)	4,746
Finance costs, net	15	154,996	153,374
Impairment of trade and other accounts receivable		12,796	32,997
Share-based payments expense/(income)	16	3,047	(25,934)
Amortisation of deferred expenses		6,669	7,013
Net foreign exchange loss/(gain)		487	(36,637)
Loss from associate		128	-
Other non-cash items		(11,141)	5,941
Net cash from operating activities before changes in working capital		**564,815**	**590,740**
Increase in trade and other accounts receivable		(59,988)	(98,871)
Decrease in inventories		43,063	243,482
Decrease in trade accounts payable		(191,342)	(528,965)
Decrease/(increase) in other accounts payable		(117,555)	22,726
Net cash generated from operations		**238,993**	**229,112**
Interest paid		(153,235)	(146,835)
Interest received		306	489
Income tax paid		(94,429)	(73,474)
Net cash flows (used in)/generated from operating activities		**(8,365)**	**9,292**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(321,026)	(232,077)
Proceeds from sale of property, plant and equipment		5,193	1,715
Investments in subsidiaries	6	(40,062)	8,984
Non-current prepaid lease		(4,178)	(3,109)
Loans issued and repayments		1,632	(34,935)
Purchase of intangible assets		(16,456)	(10,347)
Net cash used in investing activities		**(374,897)**	**(269,769)**
Cash flows from financing activities:			
Proceeds from loans		822,480	466,388
Repayment of loans		(664,343)	(344,882)
Proceeds from sale of treasury shares		-	379
Principal payments on finance lease obligations		(1,023)	(1,063)
Net cash generated from financing activities		**157,114**	**120,822**
Net decrease in cash and cash equivalents		**(226,148)**	**(139,655)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		385,001	270,762
Net decrease in cash and cash equivalents		(226,148)	(139,655)
Effect of exchange rate changes on cash and cash equivalents		7,196	20,419
Cash and cash equivalents at the end of the period		**166,049**	**151,526**

X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Changes In Equity
for the six months ended 30 June 2012
(expressed in thousands of US Dollars, unless otherwise stated)

	Attributable to the shareholders of the Company								
	Number of shares	Share capital	Share premium	Share-based payment reserve	Cumulative translation reserve	Accumulated profit	Total shareholders' equity	Non-controlling interest	Total
Balance as at 1 January 2012	**67,819,033**	**93,717**	**2,049,592**	**7,776**	**(709,693)**	**754,580**	**2,195,972**	**-**	**2,195,972**
Other comprehensive loss for the period	-	-	-	-	(51,015)	-	(51,015)	-	(51,015)
Profit for the period	-	-	-	-	-	135,165	135,165	-	135,165
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**	**(51,015)**	**135,165**	**84,150**	-	**84,150**
Share-based compensation (Note 16)	-	-	-	1,827	-	-	1,827	-	1,827
Balance as at 30 June 2012	**67,819,033**	**93,717**	**2,049,592**	**9,603**	**(760,708)**	**889,745**	**2,281,949**	**-**	**2,281,949**
Balance as at 1 January 2011	**67,813,947**	**93,712**	**2,049,144**	**5,965**	**(574,268)**	**470,980**	**2,045,533**	**1,658**	**2,047,191**
Other comprehensive income for the period	-	-	-	-	178,021	-	178,021	-	178,021
Profit for the period	-	-	-	-	-	170,241	170,241	98	170,339
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**178,021**	**170,241**	**348,262**	**98**	**348,360**
Share-based compensation (Note 16)	**-**	**-**	**-**	781	**-**	**-**	781	**-**	781
Sale of treasury shares	3,211	5	448	-	-	-	453	**-**	453
Balance as at 30 June 2011	**67,817,158**	**93,717**	**2,049,592**	**6,746**	**(396,247)**	**641,221**	**2,395,029**	**1,756**	**2,396,785**

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 30 June 2012 the Group operated a retail chain of 3,298 soft-discount, supermarket, hypermarket and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Pyaterochka-Maxi" and "Perekrestok-Express" 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 2011: 3,002 soft-discount, supermarket, hypermarket stores and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel", "Pyaterochka-Maxi" and "Perekrestok-Express"). The Group's multiformat store network comprises 2,783 soft discount stores under "Pyaterochka" brand, 341 supermarkets under "Perekrestok" brand, 77 hypermarkets under "Karusel" and "Pyaterochka-Maxi" brands, 97 convenience stores under "Perekrestok-Express" brand (31 December 2011: 2,525 soft discount stores under "Pyaterochka" brand, 330 supermarkets under "Perekrestok" brand and 77 hypermarkets under "Karusel" and "Pyaterochka-Max" brands, 70 convenience stores under "Perekrestok-Express" brand).

In addition as at 30 June 2012, the Group's franchisees operated 399 stores (31 December 2011: 658 stores) across Russia.

As at 30 June 2012 the Company's principal shareholder is the Alfa Group Consortium, through its holding company CTF Holdings Limited ("CTF"), owning 47.86% of total issued shares in the Company, both directly (0.7%) and indirectly through Luckyworth Limited (25.54%) and Cesaro Holdings Limited (21.62%). CTF, registered in Gibraltar, 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. As at 30 June 2012 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 12).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2012 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 2011 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 2011.

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 19).

The content of this interim financial report has been reviewed by an external auditor.

2.2 Foreign currency translation and transactions

***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.

2.2 Foreign currency translation and transactions (continued)

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 consistently with those policies disclosed in the consolidated financial statements for the year ended 31 December 2011.

At 30 June 2012, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 32.8169 (31 December 2011: USD 1 = RUR 32.1961). Average rate for the six months ended 30 June 2012 was USD 1 = RUR 30.6390 (six months 2011: USD 1 = RUR 28.6242).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at 31 December 2011, with the exception of changes in estimates that are required in determining the tax uncertainties (Note 20).

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new interpretations became effective for the Group from 1 January 2012:

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 did not have any material effect on these financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2012 and have not been early adopted:

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 9, Financial Instruments: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2015, 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. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. 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;

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

- 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 payments of principal and interest only (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 at fair value through profit or loss in other comprehensive income.

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

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of interest in other entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in Group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.

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), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 1, Presentation of financial statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee benefits (issued June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect the amendments to have any material effect on its financial statements.

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

Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014; not yet adopted by the EU). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Disclosures − Offsetting Financial Assets and Financial Liabilities − Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. 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 2012 and effective for annual periods beginning 1 January 2013; not yet adopted by the EU). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements. The Group does not expect the amendments to have any material effect on its financial statements.

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

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

5 SEGMENT REPORTING (continued)

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 30 June 2012 is as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Retail sales	7,850,923	7,856,549
Other revenue	7,735	10,244
Revenue	**7,858,658**	**7,866,793**
EBITDA	**554,322**	**565,977**
Capital expenditure	390,098	208,194

	30 June 2012	31 December 2011
Total assets	**8,556,030**	**8,810,196**
Total liabilities	**6,274,081**	**6,614,224**

Assets and liabilities are presented in a manner consistent with that in the condensed consolidated interim financial statements.

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

	Six months ended 30 June 2012	Six months ended 30 June 2011
EBITDA	554,322	**565,977**
Depreciation and amortization	(215,831)	(218,408)
Operating profit	**338,491**	**347,569**
Finance cost, net	(154,996)	(153,374)
Net foreign exchange result	(487)	36,637
Share of loss of associates	(128)	-
Profit before income tax	**182,880**	**230,832**
Income tax expense	(47,715)	(60,493)
Profit for the period	**135,165**	**170,339**

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

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

6 ACQUISITION OF SUBSIDIARIES

In 2012 the Group acquired several businesses by purchasing retail stores and 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 before the acquisition date. In the period ended 30 June 2012 the acquired businesses contributed revenue of USD 5,130 and a net loss of USD 258 from the date of acquisition.

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

	Provisional values at the acquisition date
Property, plant and equipment (Note 8)	8,457
Intangible assets (Note 8)	12,069
Deferred tax liability	(1,088)
Net assets acquired	19,438
Goodwill (Note 9)	16,434
Total acquisition cost	**35,872**
Net cash outflow arising from the acquisition	**35,872**

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 months from the acquisition date.

The purchase consideration comprises cash and cash equivalents of USD 35,872

The goodwill recognised is not tax deductible for tax purposes and attributable to: i) the business concentration in the Russian regions and ii) expected cost synergies from the business combination.

7 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. There were no material changes in the volume of transactions and outstanding balances between the Group and related parties compared to the Group's consolidated financial statements as at 31 December 2011 except for Megafon which was sold to third party.

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 30 June 2012 are provided below. The ultimate controlling party is disclosed in Note 1.

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 19,300 million or USD 588,112 (31 December 2011: RUR 15,100 million or USD 469,001). At 30 June 2012 the Group's liability under this credit line amounted to USD 432,704 with interest rates 7.10 - 8.05% p.a. (31 December 2011: USD 441,047), available credit line was USD 155,408 (31 December 2011: USD 27,954). 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.

Magazin Buduschego

In 2011 the Group together with Rosnano and Citronix established Magazin Budushego to develop RFID technology for retail, the Group share in associate is 33.33%. As at 30 June 2012 and for the 6 months then ended total assets, liabilities, revenue and loss of associate are not significant. The Group did not have significant balances and transactions with associate.

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

7 RELATED PARTY TRANSACTIONS (continued)

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 16). For the six months ended 30 June 2012 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 3 614 (six months ended 30 June 2011: USD 6,908), including accrued annual target bonuses of USD 398 (six months ended 30 June 2011: USD 1,070) payable on an annual basis subject to meeting annual performance targets and termination payment of USD 1,280 (six months ended 30 June 2011: USD 2 928). As at 30 June 2012 the total number of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 325,000 (31 December 2011: 325,000 GDRs) and conditional rights under LTI plan was 258 449. During the period ended 30 June 2012 the Group recognized expenses from share-based compensation to Management Board and Supervisory Board members in amount of USD 372 (six months ended 30 June 2011: income USD 548). The total intrinsic value of vested share options amounted to USD 612 as at 30 June 2012 (31 December 2011: USD 625).

8 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2012		2011	
	Property, plant and equipment	**Intangible assets**	**Property, plant and equipment**	**Intangible assets**
Cost				
Balance as at 1 January	4,781,438	874,226	4,362,204	903,198
Additions	336,644	16,494	208,194	10,346
Assets from acquisition (Note 6)	8,457	12,069	5,821	9,439
Disposals	(43,926)	(150)	(21,700)	(999)
Translation movement	(110,193)	(18,564)	375,513	77,360
Balance as at 30 June	**4,972,420**	**884,075**	**4,930,032**	**999,344**
Accumulated Depreciation				
Balance as at 1 January	(956,545)	(273,200)	(759,792)	(184,344)
Depreciation charge	(158,669)	(53,749)	(151,681)	(63,155)
Disposals	17,730	138	13,457	999
Translation movement	27,394	8,727	(66,648)	(16,987)
Balance as at 30 June	**(1,070,090)**	**(318,084)**	**(964,664)**	**(263,487)**
Net Book Value				
Balance as at 1 January	**3,824,893**	**601,026**	**3,602,412**	**718,854**
Balance as at 30 June	**3,902,330**	**565,991**	**3,965,368**	**735,857**

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 20). 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 74,027 (31 December 2011: USD 81,068).

9 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	2012	2011
Cost:		
Gross book value at 1 January	4,017,508	4,174,858
Acquisition of subsidiaries (Note 6)	16,434	11,080
Translation to presentation currency	(77,204)	353,849
Gross book value at 30 June	**3,956,738**	**4,539,787**
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,059,632)	(2,175,817)
Translation to presentation currency	38,963	(186,080)
Accumulated impairment losses at 30 June	(2,020,669)	(2,361,897)
Carrying amount at 1 January	**1,957,876**	**1,999,041**
Carrying amount at 30 June	**1,936,069**	**2,177,890**

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

9 GOODWILL (continued)

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 six months ended 30 June 2012. The Group will perform an annual impairment test of goodwill at 31 December 2012.

10 PROVISIONS AND OTHER LIABILITIES

	30 June 2012	31 December 2011
Taxes other than income tax	135 973	232,688
Provisions for non-income tax uncertainties	65,401	119,382
Accrued salaries and bonuses	134,398	131,479
Other accounts payable, payables to landlords and accruals	205,370	231,974
Accounts payable for property, plant and equipment	37,950	42,416
Advances received	38,611	43,787
	617,703	**801,726**

11 BORROWINGS

		30 June 2012			31 December 2011		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 4 years	Total	Current During 1 year	Non-current In 1 to 3 years	Total
RUR Club loan	MosPrime 3M +2.5%	-	374,102	374,102	-	380,343	380,343
RUR Bonds	7.75% - 9.5%	91,495	479,009	570,504	211,935	488,180	700,115
RUR Bilateral Loans	MosPrime 3M +2.7%	-	483,744	483,744	7,193	498,023	505,216
RUR Bilateral Loans	7.1% - 9.8%	1,078,556	1,184,466	2,263,022	689,368	1,330,331	2,019,699
RUR Loans from acquisition	0% - 13%	-	-	-	4,664	-	4,664
Total borrowings		**1,170,051**	**2,521,321**	**3,691,372**	**913,160**	**2,696,877**	**3,610,037**

In February 2012 the Group redeemed Kopeyka's bonds series 02 and 03 in the total amount of RUR 3.8 billion with the coupon rates at 16.5% and 9.8% per annum, respectively.

In April 2012 Sberbank approved for the Group new 3 year limit in the amount of RUR 4 billion. In June 2012 the Group signed additional agreements with Credit Bank of Moscow to increase total limit up to RUR 5.5 billion. In June 2012 the Group signed new committed credit line with Sberbank in the total limit of RUR 10 billion available for 3 years.

All borrowings at 30 June 2012 are shown net of related transaction costs of USD 16,035 which are amortized over the term of loans using the effective interest method (31 December 2011: USD 19,097). Borrowing costs capitalized for the six months ended 30 June 2012 amounted to USD 2,606 (30 June 2011: USD 1,071). Capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 6.86% (2011: 4.22%).

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). At 30 June 2012 the Group complied with requirements under loan facilities.

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12 SHARE CAPITAL

As at 30 June 2012 the Group had 190,000,000 authorized ordinary shares of which 67,819,033 ordinary shares are outstanding and 74,185 ordinary shares (31 December 2011: 74,185) held as treasury stock. The nominal par value of each ordinary share is EUR 1.

13 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:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Profit attributable to equity holders of the Parent	135,165	170,241
Weighted average number of ordinary shares in issue	67,819,033	67,815,053
Effect of share options granted to employees	20,017	111,140
Weighted average number of ordinary shares for the purposes of diluted earnings per share	67,839,050	67,926,193
Basic earnings per share for profit from continuing operations (expressed in USD per share)	**1.99**	**2.51**
Diluted earnings per share for profit from continuing operations (expressed in USD per share)	**1.99**	**2.51**

14 EXPENSES

Among other expenses charged for the six months ended 30 June 2012 are operating lease expenses of USD 321,762 (six months ended 30 June 2011: USD 300,536).

15 FINANCE INCOME AND COSTS

	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest expense	161,396	150,479
Interest income	(1,376)	(1,851)
Other finance (income)/costs, net	(5,024)	4,746
	154,996	**153,374**

16 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. The first and second tranches expired as at 31 December 2011. Participants of the ESOP can exercise their share options granted under third and fourth tranches until 20 November 2012 and 20 November 2013 respectively, at any time except black-out periods defined by Group's Code of Conduct of Insider Dealing, exercise prices of the third and fourth tranches are USD 33.43 and USD 13.91 respectively.

In total, during the six months ended 30 June 2012 the Group recognized expenses related to the ESOP in the amount of USD 201 (income during six months ended 30 June 2011: USD 25,367). At 30 June 2012 the share-based payments liability amounted to USD 2,078 (31 December 2011: USD 2,396). The equity component was effectively zero at 30 June 2012 (31 December 2011: zero). The total intrinsic value of vested share options amounted to USD 1,420 as at 30 June 2012 (31 December 2011: USD 1,629).

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

16 SHARE-BASED PAYMENTS (continued)

Employee stock option program (continued)

Details of the share options outstanding are during the six months ended 30 June 2012 and 30 June 2011 as follows:

	30 June 2012		30 June 2011	
	Number of share options	Weighted average exercise price, USD	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	653,700	28.0	4,056,550	25.7
Exercised during the period	(20,000)	13.9	(2,703,850)	24.8
Cancelled during the year	-	-	(191,500)	24.1
Outstanding at the end of the period	**633,700**	**28.4**	**1,161,200**	**28.3**
Exercisable at the end of the period	633,700	28.4	1,161,200	28.3

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 are as follows:

	30 June 2012	31 December 2011
GDR price	22.75	22.84
Expected volatility	50%	52%
Risk-free interest rate	2%	3%
Dividend yield	0%	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, second and third tranche will vest on 19 May 2013, 19 May 2014 and 19 May 2015 respectively. 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 six months ended 30 June 2012 the Group recognized expenses related to the RSU plan in the amount of USD 2,846 (income during six months ended 30 June 2011: USD 567). At 30 June 2012 the equity component was USD 9,603 (31 December 2011: USD 7,776) and liability component was USD 150 (31 December 2011: USD 1,161). 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.

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

16 SHARE-BASED PAYMENTS (continued)

Employee stock option program (continued)

Details of the conditional rights outstanding during the six months ended 30 June 2012 and 30 June 2011 are as follows:

	30 June 2012		30 June 2011	
	Number of conditional rights	**Weighted average fair value, USD**	**Number of conditional rights**	**Weighted average fair value, USD**
Outstanding at the beginning of the period	840,083	35.84	832,702	35.50
Granted during the period	790,754	22.55	590,163	36.00
Forfeited during the period	(306,026)	35.92	(371,005)	35.50
Outstanding at the end of the period	**1,324,811**	**27.89**	**1,051,860**	**35.78**

17 INCOME TAX

	Six months ended 30 June 2012	Six months ended 30 June 2011
Current income tax charge	(3,057)	(70,410)
Deferred income tax (expenses)/benefit	(44,658)	9,917
Income tax expense	**(47,715)**	**(60,493)**

Weighted average annual tax rate is estimated by the Group at the level from 25% to 27%.

18 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.

19 FINANCIAL RISKS MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2011. There have been no changes in the risk management department since year end or in any risk management policies.

Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

At 30 June 2012 the Group has negative working capital of USD 1,729,433 (31 December 2011: USD 1,653,055) including short-term borrowings of USD 1,170,051 (31 December 2011: USD 913,160).

At 30 June 2012 the Group had available bank credit lines of USD 1,849,657 (31 December 2011: USD 1,648,026).

20 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 30 June 2012, the Group operated 2,255 stores through rented premises (31 December 2011: 2,043 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.

During 2012 the Group reassessed the cancellation conditions for long-term lease agreements. On the basis of historical experience of lease terminations and legal practice, the reassessment resulted in non-cancellable leases being reclassified to cancellable leases.

The Group entered into a number of short-term and long-term lease agreements which are cancellable by voluntary agreement of the parties or by payment of termination compensation. The expected annual lease payments under these agreements amounts to USD 371,962 (net of VAT) (2011: USD 349,763)

Capital expenditure commitments

At 30 June 2012 the Group contracted for capital expenditure of USD 76,926 (net of VAT) (31 December 2011: USD 65,309).

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 was amended starting from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). Transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related party and some types of transactions with unrelated party), provided that the transaction price is not arm's length.

Starting from 2012 the tax authorities have more tools to review the transaction prices as the new legislation introduced special disclosure requirements on controlled transactions in the form of notification and documentation. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the entity's transfer prices cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Deductibility of interest payable under intra-group financing arrangements is subject to various limitations under the Russian tax legislation which, in combination with applicable tax treaties may be interpreted in various ways. The impact of such interpretation may be significant to the financial condition and operations of the Group and depends on the development of case-specific administrative and court practice on the matter.

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.

20 COMMITMENTS AND CONTINGENCIES (continued)

Taxation environment (continued)

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.

21 SUBSEQUENT EVENTS

In July 2012 the Group fulfilled its obligations in respect of RUR 3 billion Kopeyka's bonds series BO-01. The new annual rate for the next 4 quarterly coupons is 7.00%. Pursuant to the put option exercise, the issuer purchased from the market 2,874,373 of the 3,000,000 bonds originally issued with nominal value of 1,000 RUR. The outstanding number of the bonds decreased from 3,000,000 to 125,627 becoming short-term with maturity in July 2013.