X5 Retail Group

Condensed Consolidated Interim Financial Statements and Review Report

30 September 2009

Provided under IAS 34 as adopted by the EU

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DIRECTORS' RESPONSIBILITY STATEMENT

This report contains the financial report of X5 Retail Group N.V. ("the Company") for the nine months ended 30 September 2009 and consists of the responsibility statement by the Company's Management Board (the "Management Board") and the condensed consolidated nine months financial statements.

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

The Management Board is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 September 2009, and the results of its operations, cash flows and changes in shareholders' equity for the nine months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the condensed consolidated interim financial statements, the Management Board is responsible for:

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

The Management Board is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with International Accounting Standard 34 "Interim Financial Reporting";
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

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Lev Khasis
Chief Executive Officer

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Evgeny Kornilov
Chief Financial Officer

PRICEWATERHOUSECOOPERS

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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 9-month period ended 30 September 2009, of X5 Retail Group N.V., Amsterdam, which comprises the condensed statement of financial position as at 30 September 2009, the condensed income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the selected explanatory notes for the 9-month period then ended. Management of the company 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 Auditor of the Entity”. 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 September 2009 are not prepared, in all material respects, in accordance with IAS 34, “Interim Financial Reporting”, as adopted by the European Union.

Amsterdam, PricewaterhouseCoopers Accountants N.V.
26 November 2009

P.C. Dams RA

PricewaterhouseCoopers is the trade name of among others the following companies: PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287) and PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289). The services rendered by these companies are governed by General Terms & Conditions, which include provisions regarding our liability. These General Terms & Conditions are filed with the Amsterdam Chamber of Commerce and can also be viewed at www.pwc.com/nl.

	Note	30 September 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,933,315	3,040,843
Investment property		119,016	125,693
Goodwill	8	559,342	552,823
Intangible assets	7	482,893	499,188
Prepaid leases		85,441	80,677
Investment in associate		7,044	10,054
Other non-current assets		1,442	2,446
Deferred tax assets		101,215	96,185
		4,289,708	4,407,909
Current assets			
Inventories of goods for resale		488,471	476,742
Derivative financial assets		96	765
Loans originated		814	350
Current portion of non-current prepaid lease		12,488	10,154
Trade and other accounts receivable		266,237	177,462
Current income tax receivable		54,155	60,866
VAT and other taxes recoverable		193,667	239,418
Cash and cash equivalents		276,791	276,837
		1,292,719	1,242,594
Total assets		**5,582,427**	**5,650,503**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	10	93,712	93,712
Share premium		2,049,144	2,049,144
Cumulative translation reserve		(549,876)	(520,184)
Accumulated profit		155,116	33,941
Hedging reserve		(15,158)	(18,180)
Total equity		**1,732,938**	**1,638,433**
Non-current liabilities			
Long-term borrowings	9	1,381,731	1,480,968
Long-term finance lease payable		4,995	1,843
Deferred tax liabilities		198,613	219,308
Long-term deferred revenue		1,995	3,482
Share-based payments liability	13	25,048	30,665
		1,612,382	1,736,266
Current liabilities			
Trade accounts payable		1,024,031	1,176,249
Short-term borrowings	9	637,201	578,433
Share-based payments liability	13	44,441	7,256
Derivative financial liabilities		15,158	18,180
Short-term finance lease payables		2,473	2,197
Interest accrued		24,065	9,089
Short-term deferred revenue		4,659	4,872
Current income tax payable		12,627	20,887
Provisions and other liabilities		472,452	458,641
		2,237,107	2,275,804
Total liabilities		**3,849,489**	**4,012,070**
Total equity and liabilities		**5,582,427**	**5,650,503**

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Lev Khasis
Chief Executive Officer
26 November 2009

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Evgeny Kornilov
Chief Financial Officer
26 November 2009

X5 Retail Group
Condensed Consolidated Interim Income Statement
for the nine months ended 30 September 2009
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Revenue		**6,081,239**	**5,958,825**
Cost of sales		(4,600,435)	(4,421,122)
Gross profit		**1,480,804**	**1,537,703**
Selling, general and administrative expenses		(1,196,186)	(1,226,206)
Lease/sublease and other income		68,870	69,600
Operating profit		**353,488**	**381,097**
Finance costs	12	(116,808)	(109,465)
Finance income	12	2,669	7,539
Share of loss of associate	6	(2,568)	-
Net foreign exchange result		(38,103)	(40,011)
Profit before tax		**198,678**	**239,160**
Income tax expense	14	(77,503)	(93,189)
Profit for the period		**121,175**	**145,971**
Profit for the period attributable to:			
Equity holders of the parent		**121,175**	**145,971**
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)		**1.79**	**2.33**
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)		**1.79**	**2.33**

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Lev Khasis
Chief Executive Officer
26 November 2009

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Evgeny Kornilov
Chief Financial Officer
26 November 2009

The accompanying Notes on pages 6 to 23 are an integral part of these condensed consolidated interim financial statements.

		Nine months ended 30 September 2009	Nine months ended 30 September 2008
Profit for the period		**121,175**	**145,971**
Other comprehensive (loss)/income			
Exchange differences on translation from functional to presentation currency		(29,692)	(179,465)
Changes in fair value of financial instruments	16	3,022	5,890
Other comprehensive loss		**(26,670)**	**(173,575)**
Total comprehensive income/(loss) for the period		**94,505**	**(27,604)**
Total comprehensive income/(loss) for the period attributable to:			
Equity holders of the parent		94,505	(27,604)

Lev Khasis
Chief Executive Officer
26 November 2009

Evgeny Kornilov
Chief Financial Officer
26 November 2009

	Note	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Profit before tax		**198,678**	**239,160**
Adjustments for:			
Depreciation and amortisation	7	155,291	160,867
Loss/(Gain) on disposal of property, plant and equipment		1,326	(1,023)
Finance costs, net	12	114,139	101,927
Impairment of trade and other accounts receivable		9,510	7,107
Share-based option expense/(income)	13	31,568	(11)
Amortisation of deferred expenses		7,221	6,654
Other non-cash items		13,488	-
Loss from associate		2,568	-
Net foreign exchange loss		38,103	40,011
Net cash from operating activities before changes in working capital		**571,892**	**554,692**
(Increase)/Decrease in trade and other accounts receivable		(72,958)	49,523
(Increase)/Decrease in inventories		(21,315)	10,233
Decrease in trade accounts payable		(115,245)	(65,304)
Increase in other accounts payable and deferred revenue		26,635	26,686
Net cash generated from operations		**389,009**	**575,830**
Interest paid		(101,169)	(98,480)
Interest received		3,884	7,875
Income tax paid		(101,248)	(225,428)
Net cash flows from operating activities		**190,476**	**259,797**
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(106,839)	(784,626)
Proceeds from sale of property, plant and equipment		1,915	4,824
Non-current prepaid lease		(1,773)	(48,137)
Investments in subsidiaries		(27,550)	(690,048)
Short-term loans issued		-	(328)
Purchase of intangible assets	7	(14,859)	(5,931)
Net cash used in investing activities		**(149,106)**	**(1,524,246)**
Cash flows from financing activities:			
Proceeds from short-term loans		301,952	1,581,383
Repayment of short-term loans		(547,547)	(1,404,033)
Proceeds from long-term loans	9	242,926	-
Repayment of long-term loans		(39,138)	-
Proceeds from issue of share capital		-	1,007,592
Proceeds from sale of treasury shares		-	144,217
Acquisition of derivative financial assets		(2,453)	(8,876)
Principal payments on finance lease obligations		(3,327)	(1,954)
Net cash (used in)/generated from financing activities		**(47,587)**	**1,318,329**
Effect of exchange rate changes on cash and cash equivalents		6,171	(9,142)
Net (decrease)/increase in cash and cash equivalents		**(46)**	**44,738**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		276,837	179,496
Net (decrease)/increase in cash and cash equivalents		(46)	44,738
Cash and cash equivalents at the end of the period		**276,791**	**224,234**

Lev Khasis	Evgeny Kornilov
Chief Executive Officer	Chief Financial Officer
26 November 2009	26 November 2009

The accompanying Notes on pages 6 to 23 are an integral part of these condensed consolidated interim financial statements.

	Note	Attributable to the shareholders of the Company								
		Number of shares	**Share capital**	**Share premium**	**Hedging reserve**	**Cumulative translation reserve**	**Accumulated profit / (deficit)**	**Total shareholders' equity**	**Minority interest**	**Total**
Balance as at 1 January 2008		**53,177,760**	**70,883**	**2,896,355**	**-**	**294,169**	**(17,960)**	**3,243,447**	**220**	**3,243,667**
Other comprehensive income/(loss) for the period		-	-	-	5,890	(179,465)	-	(173,575)	-	(173,575)
Profit for the period		-	-	-	-	-	145,971	145,971	-	145,971
Total comprehensive income/(loss) for the period		**-**	**-**	**-**	**5,890**	**(179,465)**	**145,971**	**(27,604)**	**-**	**(27,604)**
Issue of shares	10	12,026,675	18,979	980,476	-	-	-	999,455	-	999,455
Sale of treasury shares	10	949,778	1,268	142,949	-	-	-	144,217	-	144,217
Acquisition of Formata	10	1,746,505	2,714	228,523	-	-	-	231,237	-	231,237
Acquisition of Minority interest in Chelyabinsk		-	-	-	-	-	-	-	(220)	(220)
Acquisition of treasury shares		(79,271)	(123)	(8,754)	-	-	-	(8,877)	-	(8,877)
Balance as at 30 September 2008		**67,821,447**	**93,721**	**4,239,549**	**5,890**	**114,704**	**128,011**	**4,581,875**	**-**	**4,581,875**
Other comprehensive loss for the period		-	-	-	(24,070)	(634,888)	-	(658,958)	-	(658,958)
Loss for the period		-	-	-	-	-	(2,284,258)	(2,284,258)	-	(2,284,258)
Total comprehensive loss for the period		**-**	**-**	**-**	**(24,070)**	**(634,888)**	**(2,284,258)**	**(2,943,216)**	**-**	**(2,943,216)**
Transfer of Goodwill impairment to Share premium		-	-	(2,190,188)	-	-	2,190,188	-	-	-
Acquisition of treasury shares	10	(7,500)	(9)	(217)	-	-	-	(226)	-	(226)
Balance as at 31 December 2008		**67,813,947**	**93,712**	**2,049,144**	**(18,180)**	**(520,184)**	**33,941**	**1,638,433**	**-**	**1,638,433**
Other comprehensive income/(loss) for the period		-	-	-	3,022	(29,692)	-	(26,670)	-	(26,670)
Profit for the period		-	-	-	-	-	121,175	121,175	-	121,175
Total comprehensive income/(loss) for the period		**-**	**-**	**-**	**3,022**	**(29,692)**	**121,175**	**94,505**	**-**	**94,505**
Balance as at 30 September 2009		**67,813,947**	**93,712**	**2,049,144**	**(15,158)**	**(549,876)**	**155,116**	**1,732,938**	**-**	**1,732,938**

Lev Khasis
Chief Executive Officer
26 November 2009

Evgeny Kornilov
Chief Financial Officer
26 November 2009

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 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 September 2009 the Group operated a retail chain of 1,217 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, Ukraine (31 December 2008: 1,101 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel"). The Group's multiformat store network comprises 952 soft discount stores under "Pyaterochka" brand, 210 supermarkets under "Perekrestok" brand and 55 hypermarkets under "Karusel" brand (31 December 2008: 848 soft discount stores under "Pyaterochka" brand, 207 supermarkets under "Perekrestok" brand and 46 hypermarkets under "Karusel" and "Perekrestok" brands).

In addition as at 30 September 2009, the Group's franchisees operated 586 stores (31 December 2008: 607 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As at 30 September 2009 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited, Alfa Group Consortium companies, owning 25.54% and 21.62% of total issued shares, respectively. As at 30 September 2009 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share, except for 1,746,505 shares issued within the Karusel acquisition (Note 10), which have not been listed on the LSE. As at 30 September 2009 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), an Alfa Group Consortium company registered at Suite 2, 4 Irish Place, Gibraltar, owning directly 0.7% of total issued shares. CTF is under the common control of Mr Fridman, Mr Khan and Mr Kuzmichev (the "Shareholders"). None of the Shareholders individually controls and/or owns 50% or more in CTF.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These condensed consolidated interim financial statements for the nine months ended 30 September 2009 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 2008 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 2008, except for the standards and interpretations which became effective for the Group from 1 January 2009 (Note 3).

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, and analyzed the impact of the recent financial crisis on future operations of the Group (Note 16).

Income tax in the interim periods is accrued using the 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 consolidated financial statements.

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

(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 30 September 2009, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 30.0922 (31 December 2008: USD 1 = RUR 29.3804). The average rate for the nine months ended 30 September 2009 was USD 1 = RUR 32.4814 (nine months 2008: USD 1 = RUR 24.0418).

2.3 Fair value of assets and liabilities at the acquisition date

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

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

During the reporting period provisional values of Karusel were updated based on final fair value estimates of independent appraisers and provisional values of OOO "Agrotorg Rostov" were updated based on preliminary fair value estimates of independent appraisers. As a consequence of the adjustment the previously reported Statement of Financial Position as at 31 December 2008 was changed to reflect the updated provisional values from the date of acquisition (Note 5).

3 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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

IAS 23, Borrowing Costs (revised). The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The effect on financial statements as at 30 September 2009 was not material.

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

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

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

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions. The interpretation contains guidelines on the following issues: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation contains guidance on when refunds or reductions in future contributions may be regarded as available for the purposes of the asset ceiling test in IAS 19, Employee Benefits.

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

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

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

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

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

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

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

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

Other new standards and interpretations. The Group has not early adopted the following new standards or interpretations:

- ***IFRIC 15, Agreements for the Construction of Real Estate*** (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted);
- ***IFRIC 12, Services Concession Arrangements*** (effective for annual periods beginning on or after 30 March 2009);
- ***IFRIC 16, Hedges of a Net Investment in a Foreign Operation*** (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted);
- ***Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning on or after 1 July 2009).

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; not yet adopted by the EU). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

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

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

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

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; not yet adopted by the EU). The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

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

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

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

IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amended standard on disclosures in its 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). The new standard uses a simplified approach to classification of financial assets which determines whether a financial asset is measured at amortised cost or at fair value. The approach in IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The Group is currently assessing the impact of the new standard on its financial statements.

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

4 SEGMENT REPORTING

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

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

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

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

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

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

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

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

The segment information for the period ended 30 September 2009 is as follows:

	Nine months ended 30 September 2009	**Nine months ended 30 September 2008**
Retail sales	6,058,927	5,933,513
Other revenue	22,312	25,312
Revenue	**6,081,239**	**5,958,825**
EBITDA	**508,779**	**541,964**
Total assets	**5,582,427**	**8,829,146**

Assets are presented in a manner consistent with that in the financial statements.

4 SEGMENT REPORTING (continued)

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

	Nine months ended 30 September 2009	Nine months ended 30 September 2008
EBITDA	**508,779**	**541,964**
Depreciation and amortization	(155,291)	(160,867)
Operating profit	**353,488**	**381,097**
Finance cost	(114,139)	(101,926)
Net foreign exchange result	(38,103)	(40,011)
Share of profit of associates	(2,568)	-
Profit before income tax	**198,678**	**239,160**

5 ACQUISITION OF SUBSIDIARIES

Karusel

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

During nine months ended 30 September 2009 the provisional values were updated as the Group has final fair value estimates of the independent appraisals. The Group has finalized the purchase price allocation within 12 months from the acquisition date. Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree’s carrying amount at the acquisition date, Russian GAAP*	Fair values at the acquisition date	Effect of change in purchase price allocation on the Statement of Financial Position as at 31 December 2008
Cash and cash equivalents	25,699	25,699	-
Inventory of goods for resale	102,509	77,956	(5,082)
Loans originated	612	261	(282)
Trade and other accounts receivable	248,849	212,088	(26,309)
Intangible assets	-	124,610	-
Property, plant and equipment (Note 7)	492,235	943,854	(56,167)
Prepaid lease	9	622	-
Deferred tax assets	6,994	7,052	-
Other assets	582	251	-
Short-term borrowings	(293,492)	(293,492)	-
Trade and other accounts payable	(258,384)	(263,236)	(887)
Provisions and liabilities for tax uncertainties (Note 18)	-	(56,478)	-
Long-term borrowings	(120,985)	(120,986)	-
Deferred tax liability	(8,467)	(146,077)	12,809
Net assets acquired	196,161	512,124	
Goodwill (Note 8)	-	404,212	
Total acquisition cost	**-**	**916,336**	

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

Agrotorg Rostov

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

5 ACQUISITION OF SUBSIDIARIES (continued)

Agrotorg Rostov (continued)

During nine months ended 30 September 2009 the provisional values were updated based on the preliminary estimate of independent appraisal. Details of assets and liabilities acquired and the related goodwill are as follows:

	Acquiree's carrying amount at the acquisition date, Russian GAAP*	Provisional values at the acquisition date	Effect of change in purchase price allocation on the Statement of Financial Position as at 31 December 2008
Cash and cash equivalents	77	77	-
Inventory of goods for resale	1,460	749	(334)
Trade and other accounts receivable	1,359	1,542	942
Intangible assets	-	578	-
Property, plant and equipment	15,306	13,593	(530)
Deferred tax assets	2,538	-	-
Trade and other accounts payable	(1,930)	(7,075)	(1,713)
Provisions and liabilities for tax uncertainties (Note 18)	-	(583)	-
Short-term borrowings	-	-	-
Deferred tax liability	(312)	(147)	107
Net assets acquired	18,498	8,734	
Goodwill (Note 8)		1,528	
Total acquisition cost	**-**	**10,262**	
Net cash inflow arising from the acquisition for the year ended 31 December 2008	**-**	**77**	
Net cash outflow arising from the acquisition for the period ended 30 September 2009	**-**	**639**	

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

In estimating provisional values of property and lease rights direct references to observable prices in an active market are used (market approach).

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

Korzinka

In November 2007 the Group acquired a 100% shareholding in OOO "Uzhnyi" operating the largest and fastest growing retail chain in the Lipetsk region under "Korzinka" brand. The Group acquired a total of 22 stores.

Total acquisition cost amounted to USD 119,439, part of which in the amount of USD 12,071 was paid during nine months ended 30 September 2009.

Chelyabinsk and Yekaterinburg

In June 2009 the purchase option was exercised and the Group increased its shareholding in OOO "Ural-Agro-Torg", OOO "Leto", OOO "Ural-Retail" and OOO "Legion" from 75% to 100%. Total acquisition cost comprised of the option utilised of USD 765 and cash paid USD 14,840 in July 2009 and USD 3,549 payable later, subject to achieving certain performance conditions. Goodwill arising on the purchase of the minority amounted to USD 19,154 (Note 8).

6 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 30 September 2009 are provided below. The ultimate controlling party is disclosed in Note 1.

Alfa Group

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

	Relationship	Nine months ended 30 September 2009	Nine months ended 30 September 2008
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,445	1,389
OAO "Alfa-Bank"	Under common control		
Interest expense on loan received		16,988	12,007
Interest income		1,024	-
Bank Charges		864	80
Rent revenue		615	134
Other operating expenses		4	
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services received		2,665	2,629
Commission for mobile phone payments processing rendered by the Group to VimpelCom		507	553
Rent revenue		44	-

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

	Relationship	30 September 2009	31 December 2008
CTF Holding Ltd.	Ultimate parent company		
Other accounts payable		190	-
OAO "Alfa-Bank"	Under common control		
Cash and cash equivalents		75,017	17,261
Receivable from related party		259	118
Long-term loans payable		-	168,480
Other accounts payable		82	570
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		506	945
Other accounts payable		1,080	439

Alfa-Bank

The Group has an open RUR credit line with Alfa-Bank with a maximum limit of RUR 9,100 mln or USD 302,404 (31 December 2008: RUR 9,100 mln or USD 309,730). At 30 September 2009 the Group had no liability under this credit line (31 December 2008: USD 168,480).

6 RELATED PARTY TRANSACTIONS (continued)

Retail Express Ltd. (associate of the Group)

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

	Relationship	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Retail Express Ltd.	associate of the Group		
Trade revenue		5,978	-
Other operating income		132	-
Rent revenue		103	-

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

	Relationship	30 September 2009	31 December 2008
Retail Express Ltd.	associate of the Group		
Loans and receivables		5,754	27
Trade payables		615	-
Investment in associate		7,044	10,054

At 30 September 2009 and for the nine months then ended summarised financial information of Retail Express Ltd., including total assets, liabilities, revenue and loss, were as follows:

	30 September 2009
Assets	32,628
Liabilities	(16,383)
Revenue for the period	39,031
Loss for the period	(6,421)

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 a short-term compensation in cash (including, for Management Board members, an annual cash bonus and share-based payments (Note 13). For the nine months ended 30 September 2009 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 5,284 (nine months ended 30 September 2008: USD 5,097), including accrued annual target bonuses of USD 2,159 (nine months ended 30 September 2008: USD 2,096) payable on an annual basis subject to meeting annual performance targets. As at 30 September 2009 the total number of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 4,038,750 (31 December 2008: 2,814,375 GDRs). The number of GDRs for which options were granted to members of the Management Board and Supervisory Board under the fourth tranche is subject to Shareholders Meeting approval. The total intrinsic value of vested share options amounted to USD 6,254 as at 30 September 2009 (31 December 2008: zero).

7 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2009		2008	
	Property, plant and equipment	**Intangible assets**	**Property, plant and equipment**	**Intangible assets**
Cost				
Balance as at 1 January	3,380,922	598,247	2,238,638	581,674
Additions	93,230	24,671	828,005	4,612
Assets from acquisitions	-	-	954,523	132,056
Disposals	(5,863)	(1,691)	(816)	(2)
Translation movement	(73,161)	(12,326)	(167,016)	(17,872)
Balance as at 30 September	**3,395,128**	**608,901**	**3,853,334**	**700,468**
Accumulated Depreciation				
Balance as at 1 January	(340,079)	(99,059)	(248,080)	(57,428)
Depreciation charge	(122,919)	(28,828)	(121,240)	(35,551)
Disposals	2,622	1,691	788	-
Translation movement	(1,437)	188	12,537	4,560
Balance as at 30 September	**(461,813)**	**(126,008)**	**(355,995)**	**(88,419)**
Net Book Value				
Balance as at 1 January	**3,040,843**	**499,188**	**1,990,558**	**524,246**
Balance as at 30 September	**2,933,315**	**482,893**	**3,497,339**	**612,049**

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 18). Certain leases for land and buildings are prepaid for long term period. Such prepayments are presented as prepaid leases in the balance sheet and amount to USD 97,929 (31 December 2008: USD 90,831).

8 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	2009	**2008**
Cost:		
Gross book value at 1 January	2,809,843	2,955,625
Acquisition of subsidiaries	19,154	422,030
Translation to presentation currency	(66,023)	(110,131)
Gross book value at 30 September	**2,762,974**	**3,267,523**
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,257,020)	-
Translation to presentation currency	53,388	-
Accumulated impairment losses at 30 September	(2,203,632)	**-**
Carrying amount at 30 September	**559,342**	**3,267,523**
Carrying amount at 1 January	**552,823**	**2,955,625**

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 additional impairment of goodwill from 31 December 2008. No events indicating triggers of goodwill impairment occurred in the nine months ended 30 September 2009.

9 BORROWINGS

		30 September 2009			31 December 2008		
	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 Syndicated loan	Libor+1.5%	-	1,091,372	1,091,372	-	1,087,617	1,087,617
USD Bilateral Loans		-	-	-	200,000	-	200,000
RUR Bonds	7,6% - 18.46%	299,416	262,790	562,206	5,919	304,986	310,905
RUR Bilateral Loans	Mosprime +3.1%; Central Bank Rate+3%	18,641	27,416	46,057	9,494	35,201	44,695
RUR Bilateral Loans	4%-19%	319,144	153	319,297	363,020	53,164	416,184
Total borrowings		**637,201**	**1,381,731**	**2,018,932**	**578,433**	**1,480,968**	**2,059,401**

In December 2007 the Group raised a 3 year syndicated loan facility of USD 1,100,000 from a consortium of banks. Starting from December 2008 the margin is 1.5% in accordance with an agreed the net Debt/EBITDA grid. LIBOR is fixed from a one to six month period. The Group has pledged as collateral for the syndicated loan 100% of the voting shares in its subsidiaries, including OOO “Agrotorg”, OOO “Agroaspekt”, Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO “TH “Perekrestok”, OOO “Perekrestok-2000”, ZAO “X5 Nedvizhimost”.

In July 2007 the Group placed RUR 9 bn corporate bonds with a maturity of 7 years including a put option in 3 years. The coupon rate for 1 coupon payment was defined at auction at the level of 7.6%. Coupon rates for 2-14 coupon payments are defined by the Issuer, according to the issue documents.

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

All borrowings at 30 September 2009 are shown net of related transaction costs of USD 9,805 which are amortized over the term of the loans using the effective interest method (31 December 2008: USD 13,726).

The Group maintains an optimal capital structure by tracking certain capital requirements: the maximum level of net Debt/EBITDA (4.25), minimum level of EBITDA/Interest expense (3), minimum level of EBITDAR/Fixed costs (2.25).

10 SHARE CAPITAL

As at 1 January 2008 the Group had 942,278 ordinary shares held as treasury stock.

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

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

As at 30 September 2009 the Group had 190,000,000 authorized ordinary shares of which 67,813,947 ordinary shares are outstanding and 79,271 ordinary shares held as treasury stock.

11 EXPENSES

Among other expenses charged for the nine months ended 30 September 2009 are the following:

- Operating lease expenses, which include USD 172,697 of minimum lease payments (nine months ended 30 September 2008: USD 177,602) and contingent rents of USD 14,136 (nine months ended 30 September 2008: USD 15,038).

12 FINANCE INCOME AND COSTS

	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Interest expense	110,013	103,915
Interest income	(2,669)	(7,539)
Other finance costs, net	6,795	5,550
	114,139	**101,926**

13 SHARE-BASED PAYMENTS

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

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

In total, during the nine months ended 30 September 2009 the Group recognized an expense related to the ESOP in the amount of USD 31,568 (income during nine months ended 30 September 2008: USD 11). At 30 September 2009 the share-based payments liability amounted to USD 69,489 (31 December 2008: USD 37,921). The equity component was effectively zero at 30 September 2009 (31 December 2008: zero).

Details of the share options outstanding during the nine months ended 30 September 2009 are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	5,704,825	28.9
Granted during the period	3,203,875	13.9
Cancelled during the period	(371,000)	22.3
Outstanding at the end of the period	**8,537,700**	**23.6**
Exercisable at 30 September 2009	5,403,825	29.2

The total intrinsic value of vested share options amounted to USD 6,254 as at 30 September 2009 (31 December 2008: zero).

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 30 September 2009 were as follows:

Expected GDR price	23.68
Expected volatility	75%
Risk-free interest rate	4%
Dividend yield	0%

14 INCOME TAX

	Nine months ended 30 September 2009	Nine months ended 30 September 2008
Current income tax charge	(98,598)	(131,020)
Deferred income tax benefit	21,095	37,831
Income tax expense	**(77,503)**	**(93,189)**

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

The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 9). In March 2009 as a part of FX risk mitigation policy the Group started using USD/RUB call spreads with leading banking institutions to hedge its short-term cash flows exposed to foreign currency risk. The effect on the financial statements at 30 September 2009 was immaterial.

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

Interest rates risk

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

The syndicated loan for USD 1,100,000 was hedged against interest rate risk in February 2008 and in April 2009 (Note 9). The Group regarded the interest rate swaps initiated in February 2008 and in April 2009 as a hedging instruments and applied hedge accounting. The fair value of the interest rate swap of USD 15,158 was recorded through equity.

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:

16 FINANCIAL RISKS MANAGEMENT (continued)

Liquidity risk (continued)

Period ended 30 September 2009

	During 1 year	In 1 to 3 years
Borrowings	768,746	1,425,340
Trade payables	1,024,031	-
Finance lease liabilities	2,473	4,995
Derivative financial liabilities	15,158	-
Other finance liabilities	266,775	-
	2,077,183	**1,430,335**

Year ended 31 December 2008

	During 1 year	In 1 to 3 years
Borrowings	593,485	1,643,696
Trade payables	1,176,249	-
Finance lease liabilities	2,197	1,843
Derivative financial liabilities	18,180	-
Other finance liabilities	259,607	-
	2,049,718	**1,645,539**

At 30 September 2009 the Group has negative working capital of USD 944,388 (31 December 2008: USD 1,033,210) including short-term borrowings of USD 637,201 (31 December 2008: USD 578,433).

At 30 September 2009 the Group had available bank credit lines of USD 507,773 (31 December 2008: USD 367,383).

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

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

The Group is carefully monitoring its liquidity profile by maximizing the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines.

The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management considers that the available credit lines and expected cash flows are more than sufficient to finance the Group's current operations.

Due to improvements in the financial markets the Group was able to reduce its cost of financing, increase the size of available credit facilities and currently does not have any liquidity constraints. Still, a significant portion of the long term debt will be reclassified as short term borrowings at the end of 2009, even though the Group has sufficient time to mitigate the risk of refinancing the USD 1,100,000 syndicate facility which matures in December of 2010. Management believes it is taking all the necessary measures to resolve the risk of refinancing and considers several debt financing instruments, such as committed lines with major Russian and western banks, access to the RR bonds market, forward start or new syndicate facility, which are available to the Group in addition to the cash balances and cash flows from operating activities that are used to finance fully discretionary capital expenditure program. Based on the review of the liquidity position expected at the end of 2009 the Group management considers that the available debt financing instruments and expected cash flows are sufficient to refinance the Group's debt at acceptable pricing and terms.

17 OPERATING ENVIRONMENT OF THE GROUP

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

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

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

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

18 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 30 September 2009, the Group operated 667 stores through rented premises (31 December 2008: 589 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. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable fees. Substantially all of the lease agreements have an option that enables the Group to cancel them with the mutual agreement of the parties involved.

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

	30 September 2009 (present value)	**31 December 2008 (present value)**	**30 September 2009 (nominal value)**	**31 December 2008 (nominal value)**
During 1 year	173,518	131,800	190,080	144,380
In 2 to 5 years	279,387	226,357	453,233	368,568
Thereafter	101,363	79,029	408,511	310,358
	554,268	**437,186**	**1,051,824**	**823,306**

A discount rate applied in determining the present value of future minimum lease payments is based on the Group weighted average cost of capital (WACC) decreasing from 20.0% in 2009 – 2010 to 13.0% in 2019 and subsequent years.

Capital expenditure commitments

At 30 September 2009 the Group contracted for capital expenditure of USD 101,103 (net of VAT) (31 December 2008: USD 173,343).

18 COMMITMENTS AND CONTINGENCIES (continued)

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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management estimates that possible exposure in relation to profit tax and other non-profit tax risks such as inter-company transactions, VAT and employee related taxes, that are more than remote, but for which no liability is required to be recognized under IFRS, could be several times the additional accrued liabilities and provisions reflected on the balance sheet at that date (and potentially in excess of the Group's profit before tax for the period). 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 108,002 at 30 September 2009 (31 December 2008: USD 110,619) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2008	76,708
Increases due to acquisitions during the year recorded as part of the purchase price allocation	57,694
Translation movement	(23,783)
Balance at 31 December 2008	**110,619**
Translation movement	(2,617)
Balance at 30 September 2009	**108,002**

19 SUBSEQUENT EVENTS

Paterson supermarket chain

On 24 November 2009 the Group has signed an agreement to acquire 100% of the business and assets of Paterson supermarket chain ("Paterson") from a holding company CorpInvest Inc. Paterson is a non-public supermarket chain of 82 stores located in Moscow, the Moscow region, St. Petersburg, Kazan and other cities of European Russia and Urals. The transaction will be structured as a 100% payment in cash for equity and full assumption of Paterson's debt. Equity value totals USD 189,500. Paterson's net debt stands at approximately USD 85,000. The Group plans to finance this purchase from its operating cash flows.