X5 Retail Group N.V.

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2008

Contents

DIRECTORS' RESPONSIBILITY STATEMENT

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2008, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards as adopted by the European Union.

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2008 were approved on 9 April 2009 by:

Lev Khasis	**Evgeny Kornilov**
Chief Executive Officer	Chief Financial Officer

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

Auditor's report

We have audited the accompanying consolidated financial statements 2008 which are part of the statutory financial statements of X5 Retail Group N.V., which comprise the consolidated balance sheet as at 31 December 2008, the income statement, statement of changes in equity and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

The management board's responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of X5 Retail Group N.V. as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

The consolidated financial statements of X5 Retail Group N.V. as referred to above, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, but are not the official statutory financial statements as they do not include all financial information and disclosures as required under the Dutch Civil Code.

Amsterdam, 10 April 2009
PricewaterhouseCoopers Accountants N.V.

drs P.C. Dams

X5 Retail Group N.V.
Consolidated Balance Sheet at 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	10	3,097,540	1,990,558
Investment property	11	125,693	129,006
Goodwill	12	475,377	2,955,625
Intangible assets	13	499,188	524,246
Prepaid leases	10	80,677	54,846
Investment in associates	7	10,054	-
Other non-current assets		2,716	2,534
Deferred income tax assets	30	96,185	31,621
		4,387,430	5,688,436
Current assets			
Inventories of goods for resale	14	482,158	325,240
Derivative financial assets	18	765	1,500
Loans originated		359	145
Current portion of non-current prepaid lease		10,154	5,766
Trade and other accounts receivable	16	188,986	148,646
Current income tax receivable		60,866	4,628
VAT and other taxes recoverable	17	253,264	195,752
Cash and cash equivalents	9	276,837	179,496
		1,273,389	861,173
Total assets		**5,660,819**	**6,549,609**
EQUITY AND LIABILITIES			
Share capital	21	93,712	70,883
Share premium	21	2,049,144	2,896,355
Cumulative translation reserve		(520,184)	294,169
Retained earnings/(Accumulated deficit)		33,941	(17,960)
Hedging reserve	18	(18,180)	-
Equity attributable to equity holders of the parent		**1,638,433**	**3,243,447**
Minority interests		-	220
Total equity		**1,638,433**	**3,243,667**
Non-current liabilities			
Long-term borrowings	20	1,480,968	1,464,684
Long-term finance lease payable		1,843	1,280
Deferred income tax liabilities	30	232,224	213,322
Long-term deferred revenue		3,482	3,221
Share-based payments liability	29	30,665	43,208
		1,749,182	1,725,715
Current liabilities			
Trade accounts payable		1,174,144	971,570
Short-term borrowings	20	578,433	253,733
Share-based payments liability	29	7,256	2,389
Derivative financial liabilities	18	18,180	-
Short-term finance lease payables		2,197	2,280
Interest accrued		9,089	2,763
Short-term deferred revenue		4,872	4,943
Current income tax payable		21,095	33,303
Provisions and other liabilities	19	457,938	309,246
		2,273,204	1,580,227
Total liabilities		**4,022,386**	**3,305,942**
Total equity and liabilities		**5,660,819**	**6,549,609**

Lev Khasis	Evgeny Kornilov
Chief Executive Officer	Chief Financial Officer
9 April 2009	9 April 2009

These consolidated financial statements are prepared separately and are not the full 2008 statutory financial statements.
The accompanying Notes on pages 5 to 49 are an integral part of these consolidated financial statements.

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

	Note	31 December 2008	31 December 2007
Revenue	23	8,353,250	5,320,424
Cost of sales	24	(6,206,324)	(3,916,493)
Gross profit		**2,146,926**	**1,403,931**
Selling, general and administrative expenses	24	(1,698,524)	(1,135,046)
Lease/sublease and other income	25	94,776	68,032
Operating profit before impairment		**543,178**	**336,917**
Impairment of Goodwill	12, 24	(2,257,020)	-
Operating (loss)/ profit after impairment		**(1,713,842)**	**336,917**
Finance costs	26	(159,016)	(133,019)
Finance income	26	10,511	7,230
Share of loss of associates		(647)	-
Net foreign exchange (loss)/gain	27	(267,187)	31,545
(Loss)/Profit before tax		**(2,130,181)**	**242,673**
Income tax expense	30	(8,106)	(98,925)
(Loss)/Profit for the year		**(2,138,287)**	**143,748**
Attributable to:			
Equity holders of the parent		(2,138,287)	143,748
(Loss)/Profit for the year		**(2,138,287)**	**143,748**
Basic (losses)/earnings per share for (losses)/profit attributable to the equity holders of the parent (expressed in USD per share)	22	(33.45)	2.51
Diluted (losses)/earnings per share for (losses)/profit attributable to the equity holders of the parent (expressed in USD per share)	22	(33.45)	2.50

Lev Khasis
Chief Executive Officer
9 April 2009

Evgeny Kornilov
Chief Financial Officer
9 April 2009

X5 Retail Group N.V.
Consolidated Statement of Cash Flows
for the year ended 31 December 2008
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	31 December 2008	31 December 2007
(Loss)/Profit before income tax		**(2,130,181)**	**242,673**
Adjustments for:			
Depreciation and amortisation	24	225,238	142,376
Goodwill impairment	12	2,257,020	-
Loss on disposal of property, plant and equipment		835	137
Loss on disposal of intangible assets		245	35
Finance costs, net	26	148,505	125,789
Impairment of trade and other accounts receivable	24	7,350	1,369
Share-based options (income)/expense	29	(7,647)	43,208
Amortisation of deferred expenses		5,087	2,929
Net foreign exchange loss/(gain)	27	267,187	(67,195)
Other		647	-
Net cash from operating activities before changes in working capital		**774,286**	**491,321**
Decrease/(Increase) in trade and other accounts receivable		39,043	(65,107)
Increase in inventories		(164,858)	(77,041)
Increase in trade payable		239,744	330,154
Increase/(Decrease) in other accounts payable		130,007	(48,234)
Net cash generated from operations		**1,018,222**	**631,093**
Interest paid		(150,493)	(109,177)
Interest received		12,078	3,380
Income tax paid		(250,460)	(97,824)
Net cash from operating activities		**629,347**	**427,472**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(883,020)	(620,233)
Purchase of investment property	11	(3,034)	(9,173)
Non-current prepaid lease		(57,384)	(46,543)
Acquisition of subsidiaries and associate, net of cash acquired	7	(711,072)	(211,412)
Acquisition of other long-term investments		-	(211)
Short-term loans issued in connection with acquisitions		-	(20,157)
Proceeds from sale of property, plant and equipment		6,826	10,949
Purchase of intangible assets	13	(8,361)	(1,987)
Net cash used in investing activities		**(1,656,045)**	**(898,767)**
Cash flows from financing activities			
Proceeds from short-term loans		2,061,428	583,917
Repayment of short-term loans		(1,999,787)	(396,016)
Proceeds from long-term loans		-	1,458,306
Repayment of long-term loans		-	(1,167,265)
Proceeds from issue of share capital	21	999,454	-
Proceeds from sale of treasury shares	21	144,217	-
Acquisition of treasury shares	21	(9,102)	(5,048)
Principal payments on finance lease obligations		(2,017)	(3,872)
Net cash from financing activities		**1,194,193**	**470,022**
Effect of exchange rate changes on cash and cash equivalents		(70,154)	12,781
Net increase in cash and cash equivalents		**97,341**	**11,508**
Movements in cash			
Cash and cash equivalents at the beginning of the year		179,496	167,988
Net increase in cash and cash equivalents		97,341	11,508
Cash and cash equivalents at the end of the year		**276,837**	**179,496**

Lev Khasis
Chief Executive Officer
9 April 2009

Evgeny Kornilov
Chief Financial Officer
9 April 2009

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

		Attributable to the shareholders of the Company							Minority interest	Total
	Note	**Number of shares**	**Share capital**	**Share premium**	**Hedging reserve**	**Cumulative translation reserve**	**Retained earnings / (Accumulated deficit)**	**Total shareholders' equity**		
Balance as at 1 January 2007		**53,217,760**	**70,936**	**2,901,350**	**-**	**79,459**	**(161,708)**	**2,890,037**	**-**	**2,890,037**
Translation movement		-	-	-	-	214,710	-	214,710	-	214,710
Profit for the year		-	-	-	-	-	143,748	143,748	-	143,748
Total recognised income for the year		-	-	-	-	214,710	143,748	358,458	-	358,458
Acquisition of treasury shares		(40,000)	(53)	(4,995)	-	-	-	(5,048)	-	(5,048)
Acquisition of Chelyabinsk		-	-	-	-	-	-	-	220	220
Balance as at 31 December 2007		**53,177,760**	**70,883**	**2,896,355**	**-**	**294,169**	**(17,960)**	**3,243,447**	**220**	**3,243,667**
Translation movement		-	-	-	-	(814,353)	-	(814,353)	-	(814,353)
Loss for the year		-	-	-	-	-	(2,138,287)	(2,138,287)	-	(2,138,287)
Total recognised loss for the year		-	-	-	-	(814,353)	(2,138,287)	(2,952,640)	-	(2,952,640)
Issue of shares	21	12,026,675	18,979	980,475	-	-	-	999,454	-	999,454
Sale of treasury shares	21	949,778	1,268	142,949	-	-	-	144,217	-	144,217
Acquisition of Formata	7	1,746,505	2,714	228,523	-	-	-	231,237	-	231,237
Acquisition of treasury shares		(86,771)	(132)	(8,970)	-	-	-	(9,102)	-	(9,102)
Acquisition of Minority interest in Chelyabinsk		-	-	-	-	-	-	-	(220)	(220)
Hedging instruments	18	-	-	-	(18,180)	-	-	(18,180)	-	(18,180)
Transfer of Goodwill impairment to Share premium	12	-	-	(2,190,188)	-	-	2,190,188	-	-	-
Balance as at 31 December 2008		**67,813,947**	**93,712**	**2,049,144**	**(18,180)**	**(520,184)**	**33,941**	**1,638,433**	**-**	**1,638,433**

Lev Khasis
Chief Executive Officer
9 April 2009

Evgeny Kornilov
Chief Financial Officer
9 April 2009

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

1 PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

These consolidated financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries, as set out in Note 6 (the "Group"). These consolidated financial statements are prepared separately from the statutory accounts of the Company which are filed with the authorities in the Netherlands.

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

The main activity of the Group is the development and operation of grocery retail stores. As at 31 December 2008 the Group operated a retail chain of 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, Krasnodar, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, with the following number of stores:

	31 December 2008	31 December 2007
Supermarket		
Moscow	114	105
N Novgorod	20	18
North-West	20	19
Samara	14	8
South	13	8
Central-Chernozem	13	11
Tatarstan	7	5
Ukraine	6	5
	207	**179**
Discounter		
Moscow	368	309
North-West	276	244
Chelyabinsk	64	49
Ekaterinburg	40	34
Perm	35	-
N Novgorod	29	18
Central-Chernozem	19	15
Samara	13	5
South	4	-
	848	**674**
Hypermarket		
North-West	15	-
Moscow	10	4
N Novgorod	5	2
Tatarstan	4	3
South	4	1
Central-Chernozem	3	2
Samara	2	2
West Siberia	1	1
Bashkortostan	1	-
Ekaterinburg	1	-
	46	**15**
Total stores	**1,101**	**868**

In addition as at 31 December 2008, the Group's franchisees operated 607 stores (31 December 2007: 688 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As of 31 December 2008 the Company's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited owning 25.54% and 21.62% of total issued shares, respectively. As of 31 December 2008 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share, except for 1,746,505 shares issued within the Karusel acquisition (Note 7). As of 31 December 2008 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), a 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 consolidated financial statements for the year ended 31 December 2008 have been prepared in accordance with, and comply with International Financial Reporting Standards as adopted by the European Union.

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

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

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

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

2.2 Accounting for the effects of inflation

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

2.3 Consolidated financial statements

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Consolidated financial statements (continued)

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

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

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

2.4 Minority interest

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

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

2.5 Foreign currency translation and transactions

(a) Functional and presentation currency

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

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rates at the date of that balance sheet;

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

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

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

(b) Transactions and balances

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation and transactions (continued)

(b) Transactions and balances (continued)

At 31 December 2008, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 29.3804 (31 December 2007: USD 1 = RR 24.5462). The average rate for year ended 31 December 2008 was USD 1 = RR 24.8553 (12 months 2007: USD 1 = RR 25.577).

At 31 December 2008, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 7.7000 (31 December 2007: USD 1 = UAH 5.0500). The average rate for 12 months 2008 was USD 1 = UAH 5.2672 (12 months 2007: USD 1 = UAH 5.0500).

2.6 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose internal and external revenue or result or assets are ten percent or more of all segments are reported separately. The Group identifies business segments as its primary segment reporting format while geographical segments are its secondary segment reporting format.

2.7 Property, plant and equipment

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment property

Investment property consists of buildings held by the Group to earn rental income or for capital appreciation, or both, and which are not occupied by the Group. The Group recognises the part of an owned shopping center that is leased to third party retailers as investment property, unless it represents an insignificant portion of the property and is used primarily to provide auxiliary services to retail customers not provided by the Group rather than to earn rental income. The Group uses the ratio of leased out space to total store space as criteria to distinguish investment property from Group-occupied property.

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

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

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

2.9 Intangible assets

(a) **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on the acquisition of subsidiaries is presented as part of intangible assets in the consolidated balance sheet.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to groups of cash-generating units, which are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

(b) Lease rights

Lease rights represent rights for favourable operating leases acquired in business combinations. Lease rights acquired in a business combination are recognised initially at fair value. Lease rights are amortised using the straight-line method over the lease term of the respective lease contracts – ranging from 10 to 20 years (15 on average).

(c) Brand and private labels

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

	Useful lives
Brand	20 years
Private labels	5-8 years

(d) Franchise agreements

Franchise agreements represent rights to receive royalties. Franchise agreements acquired in a business combination are recognised initially at fair value. Franchise agreements are amortised using the straight-line method over their useful lives that are, on average, ranging from 5 to 10 years (8 on average).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

(e) Other intangible assets

Expenditure on acquired patents, trademarks and licenses is capitalized and amortised using the straight-line method over their useful lives ranging from 3 to 4 years.

(f) Impairment of intangible assets

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

2.10 Operating leases

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

An asset leased out by the Group under operating leases is included in investment property in the balance sheet, unless it represents an insignificant portion of property and is used primarily to provide auxiliary services to retail customers not provided by the Group, rather than to earn rental income. It is depreciated over its expected useful life on a basis consistent with similar fixed assets and investment property. Rental income is recognised in the income statement on a straight-line basis over the lease term.

The Group leases retail outlets under terms of fixed and variable lease payments. The variable lease payments depend on revenue earned by the respective retail outlets. The Group classifies variable lease payments as contingent rents unless the Group is virtually certain of the expected amount of the future lease payments in which case they are classified as minimum lease payments (Note 35).

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

2.11 Finance lease liabilities

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

2.12 Trade receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Inventories of goods for resale

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

The Group provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of cost of sales. The provision is adjusted to actual shrinkage based on regular inventory counts. The provision is recorded as a component of cost of sales.

2.14 Financial assets and liabilities

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

Initial recognition of financial instruments

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

Impairment

The Group reviews the carrying value of its financial assets on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the Group records an impairment loss and reduces the carrying amount of assets by using allowance account. The Group does not reduce the carrying amount of impaired financial assets directly but rather uses an allowance account.

Derecognition of financial assets

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

Derivative financial instruments and hedging activities

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Financial assets and liabilities (continued)

Derivative financial instruments and hedging activities (continued)

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

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

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement within 'Other finance costs, net'.

Loans and receivables

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

Available for sale

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

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

Financial liabilities

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

2.15 Cash

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

2.16 Provisions

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Value added tax

Value added tax related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against sales VAT upon receipt of the VAT invoice. Input VAT on construction in progress can be reclaimed on receipt of VAT invoices for the particular stage of work performed or, if the construction in progress project can not be broken down into stages, on receipt of VAT invoices upon completion of the contracted work.

The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.18 Employee benefits

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

2.19 Share-based payments

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

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

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

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

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

2.20 Borrowings

Borrowings are initially recognised at their fair value, net of transaction costs, and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. The Group does not capitalize borrowing costs but recognises them as an expense in the period in which they are incurred.

2.21 Trade and other payables

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

2.22 Share capital

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Dividends

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

2.24 Treasury shares

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

2.25 Earnings per share

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

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

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

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

2.26 Taxes

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

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

Taxes other than on income, interest and penalties are measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent*. The Group provides against tax contingencies and the related interest and penalties where management can make a reliable estimate of the amount of the additional taxes that may be due. Provisions are maintained, and updated if necessary, for the period over which the respective tax positions remain subject to review by the tax and customs authorities, being 3 years from the year of filing. Upon expiry of the review period, the provisions are released and considered as a contingent liability until the accounting documentation maintenance period expires, being an additional 2 years (i.e. 5 years in total).

Liabilities for such taxes, interest and penalties are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date (Notes 30 and 35).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Income and expense recognition

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

(a) Revenue

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

The group launched a loyalty card scheme in 2007. Discounts earned by customers through loyalty cards, are recorded by the Group by allocating some of the consideration received from the initial sales transaction to the award credits and deferring the recognition of revenue. The allocation is made by the reference to the relative fair values of the components adjusted for expected forfeitures.

(b) Cost of sales

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

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

Bonuses received from suppliers are recorded as a reduction in the price paid for the products and are recognised in cost of sales as the related inventory is sold. Bonuses receivable from suppliers in cash are presented as trade receivables.

(c) Interest income and expense

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

(d) Selling, general and administrative expenses

Selling expenses consist of salaries and wages of stores employees, store expenses, rent or depreciation of stores, utilities, advertising costs and other selling expenses. General and administrative expenses include costs of salaries and wages of support office employees, rent and depreciation of support offices, impairment and amortisation charges of non-current charges and other general and administrative expenses. Selling, general and administrative expenses are recognised on an accrual basis as incurred. The Group recognised start-up costs of stores as an expense in the period in which they are incurred.

2.28 Impairment of non-current assets other than goodwill

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

2.29 Fair value of assets and liabilities at the acquisition date

In November 2007 the Group acquired 100% shareholding in OOO “Uzhnyi” operating the largest and fastest growing retail chain in the Lipetsk region under “Korzinka” brand. In December 2007 the Group acquired 100% of the voting shares of OOO “Rubin TK” and OOO “RPH Nedvizhimost” operating retail grocery stores in Moscow and in the Moscow region under the “Strana Gerkulesia” brand.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Fair value of assets and liabilities at the acquisition date (continued)

A primary valuation of assets and liabilities of acquired companies was undertaken on a provisional basis. During the reporting period provisional values were updated based on the preliminary fair value estimates of independent appraisers.

Korzinka

As the result of a valuation, the provisional value of identifiable net assets as at the date of acquisition increased by USD 903. Total acquisition cost increased due to additional expenses attributable to the acquisition by USD 17,291 (Note 7).

As a consequence of the adjustment the previously reported Balance Sheet as at 31 December 2007 was changed to reflect the updated provisional values from the date of acquisition.

	31 December 2007 (adjusted)	31 December 2007
Property, plant and equipment	38,188	36,840
Goodwill	76,638	60,382
Intangible assets	24,922	25,090
Deferred tax liability	(9,574)	(9,291)

Strana Gerkulesia

As the result of a valuation, the provisional value of identifiable net assets as at the date of acquisition increased by USD 1,594, total acquisition cost increased by USD 6,747 (Note 7).

As a consequence of the adjustment the previously reported Balance Sheet as at 31 December 2007 was changed to reflect the updated provisional values from the date of acquisition.

	31 December 2007 (adjusted)	31 December 2007
Property, plant and equipment	27,645	26,825
Goodwill	51,926	46,773
Intangible assets	3,682	2,800
Deferred tax assets	3,264	-
Inventories of goods for resale	4,179	3,975
Trade and other accounts receivable	4,873	5,467
Current income tax receivable	6	-
Long-term finance lease payable	(100)	-
Deferred tax liability	(5,650)	(6,712)
Trade accounts payable	(11,930)	(8,865)
Short-term finance lease payables	(1,817)	(1,682)
Provisions for tax contingencies	(8,714)	(7,677)
Other liabilities	(1,596)	(1,885)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amount of cash-generating unit has been determined based on the higher of fair value less costs to sell or on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12. The impairment loss on goodwill amounted to USD 2,257,020. Since part of this goodwill was originally recognised on the acquisition of businesses with a corresponding entry to share premium account, an amount of USD 2,190,188 has been transferred from accumulated deficit to share premium reserve (Note 12).

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Provisional fair value of Karusel net assets. The Group acquired Karusel during the reporting period (Note 7) and applied a number of estimates to define the provisional fair value of Karusel net assets. In estimating the provisional values of property and lease rights, direct references to observable prices in an active market are used (market approach). Estimates of other assets and liabilities are consistent with the Group policies with regard to other subsidiaries.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 35).

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

The Group periodically assesses whether there is any indication that property, plant and equipment may be impaired. In the current period such indications exist and therefore assets impairment testing was performed (Note 12). In the opposite case, the Group estimates the recoverable amount of the asset or cash generating unit and if it is less than the carrying amount of an asset or cash generating unit an impairment loss is recognised in the income statement.

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

Inventory provisions. The Group provides for estimated inventory shrinkage on the basis of a historical shrinkage as a percentage of cost of sales (Note 14). This provision is adjusted at the end of each reporting period to reflect the historical trend of the actual physical inventory count results.

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

Classification of VAT. The Group classifies VAT recoverable as short-term and long term asset based on the terms of recovery of VAT which depends on the registration of certain property, plant and equipment (Note 17).

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

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

Share-based payments. In 2007 the Group introduced an employee stock option program (ESOP) for its key executives and employees. The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the share options is measured based on the Black-Scholes model. Major assumptions are summarized in Note 29.

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

Certain new interpretations became effective for the Group from 1 January 2008:

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.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted:

- IFRIC 11, IFRS 2 **–** Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2008);

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 30 March 2009); and

- IFRIC 14, IAS 19 **–** The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 31 December 2008).

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group is currently assessing the impact of the amendment on its financial statements. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising 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 capitalise 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 capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). 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 Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009; the revised standard has not yet been adopted by the EU). 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.

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

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; not yet adopted by the EU). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier

for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). 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. The Group does not expect the amendment 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 recognise 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 recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised 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.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. 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. Management is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements. The Group expects the revised IFRS 8 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 for financial statements pepared under IFRS; adopted by the EU with an effective date postponed to annual periods beginning after 31 December 2008). 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 recognise the deferred revenue on their customer loyalty program as a reduction of revenue, thus, this interpretation will have no impact on consolidated 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; not yet adopted by the EU);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; not yet adopted by the EU);
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009;
- 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, not yet adopted by the EU).

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

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.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008, but are not currently relevant for the Group:

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

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

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

5 SEGMENT REPORTING

The Group has the following business segments:

	Retail trade	Other	Group
Year ended 31 December 2008			
Sales – external	8,319,821	33,429	8,353,250
	8,319,821	**33,429**	**8,353,250**
Segment result	(1,716,078)	23,648	(1,692,430)
Unallocated expenses			(21,412)
Operating profit			**(1,713,842)**
Finance costs, net			(148,505)
Share of result of associates			(647)
Unallocated expenses			(267,187)
Loss before income tax			**(2,130,181)**
Income tax expense			(8,106)
Loss for the year			**(2,138,287)**
Capital expenditure	895,865	3,033	898,898
Depreciation and amortisation	199,587	25,651	225,238
Doubtful debtors expense	7,350	-	7,350
As at 31 December 2008			
Segment assets	5,318,690	161,030	5,479,720
Investment in associate	10,054	-	10,054
Current and deferred tax assets			157,051
Other unallocated assets			13,994
Total assets			**5,660,819**
Segment liabilities	1,174,144	-	1,174,144
Current and deferred tax liability			253,319
Other unallocated liabilities			2,594,923
Total liabilities			**4,022,386**

	Retail trade	Other	Group
Year ended 31 December 2007			
Sales – external	5,295,091	25,333	5,320,424
Sales to other segments			
Total revenue	5,295,091	25,333	**5,320,424**
Segment result	424,505	19,390	443,895
Unallocated expenses			(106,978)
Operating profit			**336,917**
Finance costs, net			(125,789)
Share of result of associates			
Unallocated expenses			31,545
Profit before income tax			**242,673**
Income tax expense			(98,925)
Profit for the year			**143,748**
Capital expenditure	610,634	9,173	619,807
Depreciation and amortisation	132,730	9,646	142,376
Doubtful debtors expense	1,370	-	1,370
As at 31 December 2007			
Segment assets	6,310,592	192,823	6,503,415
Current and deferred income tax assets			36,249
Other unallocated assets			9,945
Total assets			**6,549,609**
Segment liabilities	971,570	-	971,570
Current and deferred income tax liability			246,625
Other unallocated liabilities			2,087,747
Total liabilities			**3,305,942**

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

5 SEGMENT REPORTING (continued)

The Group has the following geographical segments:

	Russia	Other	Group
Year ended 31 December 2008			
Sales – external	8,303,112	50,138	8,353,250
Capital expenditure	896,532	2,366	898,898
As at 31 December 2008			
Segment assets	5,522,551	138,268	5,660,819
Year ended 31 December 2007			
Sales – external	5,288,118	32,306	5,320,424
Capital expenditure	616,018	3,789	619,807
As at 31 December 2007			
Segment assets	6,530,360	19,249	6,549,609

6 SUBSIDIARIES

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

			Ownership (%)	
Company	**Country**	**Nature of operations**	**31 December 2008**	**31 December 2007**
Agroaspekt OOO	Russia	Retailing	100	100
Agrotorg OOO	Russia	Retailing	100	100
Alpegru Retail Properties Ltd.	Cyprus	Real estate	100	100
Formata Holding B.V.	Holland	Holding Company	100	-
Grasswell Ltd.	Cyprus	Financing	100	100
Hirsova Trading Ltd.	Cyprus	Trade mark	100	-
Kaizer OOO	Russia	Real estate	100	-
Kama Retail OOO	Russia	Retailing	100	-
Key Retail Technologies Ltd.	Gibraltar	Trade mark	100	100
Perekrestok Holdings Ltd.	Gibraltar	Holding Company	100	100
Perekrestok-2000 OOO	Russia	Retailing	100	100
Sladkaya Zhizn N.N. OOO	Russia	Retailing	100	100
Speak Global Ltd.	Cyprus	Real estate and trade mark	100	100
TH Perekrestok ZAO	Russia	Retailing	100	100
Ural Retail OOO	Russia	Retailing	75	51
Ural-Agro-Torg OOO	Russia	Retailing	75	51
Uzhnyi OOO	Russia	Retailing	100	100
X5 Finance OOO	Russia	Bond issuer	100	100
X5 Nedvizhimostn ZAO	Russia	Real estate	100	100
X5 Retail Group Ukraine ZAT	Ukraine	Retailing	100	100

7 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. There are currently 24 hypermarkets operating under the Karusel brand. Three more hypermarkets are under construction, and the Group owns eight land plots potentially suitable for hypermarket construction.

In the year ended 31 December 2008 the acquired business of Karusel contributed revenue of USD 163,623 and a net profit of USD 10,864 from the date of acquisition. If the acquisition of Karusel had occurred on 1 January 2008, the Group's revenue for the year ended 31 December 2008 would have been USD 8,892,390 and the Group's loss for the year ended 31 December 2008 would have been USD 2,145,489 . Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Karusel.

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

7 ACQUISITION OF SUBSIDIARIES (continued)

Karusel (continued)

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

	Acquiree's carrying amount, Russian GAAP*	Provisional values
Cash and cash equivalents	25,699	25,699
Inventory of goods for resale	102,509	84,277
Loans originated	612	612
Trade and other accounts receivable	248,849	244,813
Intangible assets (Note 13)	-	124,610
Property, plant and equipment (Note 10)	492,235	1,013,711
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)	(262,488)
Provisions and liabilities for tax uncertainties (Note 19)	-	(56,478)
Long-term borrowings	(120,985)	(120,986)
Deferred tax liability	(8,467)	(161,334)
Net assets acquired	**196,161**	606,869
Goodwill (Note 12)		309,467
Total acquisition cost		**916,336**
Net cash outflow arising from the acquisition for the year ended 31 December 2008		**658,927**

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

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 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 653,373, deferred consideration of USD 31,725 part of which in the amount of USD 31,253 was paid during the year ended 31 December 2008, and 1,746,505 ordinary shares in the amount of USD 231,237.

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

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 15 discount stores.

In the year ended 31 December 2008 the acquired business of Agrotorg Rostov did not contribute revenue and net profit to the Group. If the acquisition of Agrotorg Rostov had occurred on 1 January 2008, the Group's revenue for 2008 would have been USD 8,386,858 and the Group's loss for 2008 would have been USD 2,147,310. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Agrotorg Rostov.

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

7 ACQUISITION OF SUBSIDIARIES (continued)

Agrotorg Rostov (continued)

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

	Acquiree's carrying amount, Russian GAAP*	Provisional values
Cash and cash equivalents	77	77
Inventory of goods for resale	1,460	1,083
Trade and other accounts receivable	1,359	600
Intangible assets (Note 13)	-	578
Property, plant and equipment (Note 10)	15,306	14,123
Deferred tax assets	2,538	-
Trade and other accounts payable	(1,930)	(5,362)
Provisions and liabilities for tax uncertainties (Note 19)	-	(583)
Deferred tax liability (Note 30)	(312)	(254)
Net assets acquired	18,498	10,262
Total acquisition cost		10,262
Net cash inflow arising from the acquisition for the year ended 31 December 2008		**77**

* 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 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents to be paid in May 2009 of USD 500, loan of USD 9,625 from "BinBank" assigned to the Group from Agrotorg Rostov and transaction costs of USD 139 at the moment of acquisition.

No goodwill was recognized on the acquisition.

Chelyabinsk and Yekaterinburg

At 1 January 2007 the Group obtained control via contractual arrangements over OOO "Ural-Agro-Torg" and OOO "Leto", entities operating in Chelyabinsk region. The Group increased its shareholding in OOO "Ural-Agro-Torg" and OOO "Leto" from 26% to 51% in exchange for 49% of the shares of OOO "Ural-Retail" and OOO "Legion" (the fair value of the shares given as consideration being USD 220 as at the date of business combination).

Under the Shareholders Agreement the Group also acquired an option to purchase the remaining 49% of the share capital of OOO "Ural-Agro-Torg", OOO "Leto", OOO "Ural-Retail" and OOO "Legion". The option is exercisable in the period from 1 January 2008 until 30 June 2009 at a price that is calculated based on the acquiree's sales and debt. The Group considers the change in the value of the option between the date of acquisition and the reporting date as insignificant.

In May 2008 the option was partly utilised and the Group increased its shareholding in OOO "Ural-Agro-Torg", OOO "Leto", OOO "Ural-Retail" and OOO "Legion" from 51% to 75%. Total acquisition cost comprised of cash and cash equivalents of USD 10,833 and utilised option of USD 735. Goodwill arising on the purchase of the minority amounted to USD 11,348 (Note 12).

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

Kama retail

In March 2008 the Group acquired 100% of the voting shares of OOO "Kama-Retail" operating retail grocery stores in the Perm region. The Group acquired a total of 28 discount stores.

In the year ended 31 December 2008 the acquired business of Kama contributed revenue of USD 58,056 and a net loss of USD 3,761 from the date of acquisition. If the acquisition of Kama had occurred on 1 January 2008, the Group's revenue for the year ended 31 December 2008 would have been USD 8,368,651 and the Group's loss for the year ended 31 December 2008 would have been USD 2,138,948. Estimates of the contribution of revenue and net profit to the Group are based on unaudited information derived from previous management accounts of Kama retail.

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

7 ACQUISITION OF SUBSIDIARIES (continued)

Kama retail (continued)

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

	Acquiree's carrying amount, Russian GAAP*	Fair values
Cash and cash equivalents	464	464
Inventory of goods for resale	2,790	2,651
Loans originated	85	85
Trade and other accounts receivable	2,200	1,973
Intangible assets (Note 13)	-	7,446
Property, plant and equipment (Note 10)	8,150	10,669
Deferred tax assets	211	211
Other assets	41	41
Short-term borrowings	(3,977)	(3,977)
Trade and other accounts payable	(8,677)	(8,936)
Provisions and liabilities for tax uncertainties (Note 19)	-	(634)
Long-term borrowings	(2,511)	(3,293)
Deferred tax liability	-	(1,739)
Net assets acquired	(1,224)	4,961
Goodwill (Note 12)		6,470
Total acquisition cost		**11,431**
Net cash outflow arising from the acquisition for the year ended 31 December 2008		**10,966**

* 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 of the acquisition date.

The purchase consideration comprises cash and cash equivalents paid of USD 11,188 and directly attributable costs of USD 243. The goodwill recognised is attributable to: i) the business concentration in the Perm region and its neighboring areas and ii) expected cost synergies from the business combination.

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, of which 15 will be integrated into the Group's discounter format, 6 into the supermarket format and one store has been added to the hypermarket network.

In the year ended 31 December 2007 the acquired business of Korzinka contributed revenue of USD 20,044 and net profit of USD 368 from the date of acquisition. If the acquisition of Korzinka had occurred on 1 January 2007, the Group’s revenue for 2007 would have been USD 5,464,530 and the Group’s profit for 2007 would have been USD 141,431. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Korzinka.

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

7 ACQUISITION OF SUBSIDIARIES (continued)

Korzinka (continued)

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

	Acquiree's carrying amount, Russian GAAP*	Fair values
Cash and cash equivalents	992	992
Inventory of goods for resale	7,777	7,241
Trade and other accounts receivable	9,129	8,993
Intangible assets (Note 13)	-	25,122
Property, plant and equipment (Note 10)	23,562	38,637
Short-term borrowings	(7,098)	(7,098)
Trade and other accounts payable	(14,853)	(15,018)
Provisions and liabilities for tax uncertainties (Note 19)	-	(7,883)
Deferred tax liability	-	(9,648)
Net assets acquired	19,509	41,338
Goodwill (Note 12)		78,101
Total acquisition cost		**119,439**
Net cash outflow arising from the acquisition for the year ended 31 December 2007		**93,026**

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

During the year ended 31 December 2008 the provisional values were updated as described in the Note 2.29. The Group has finalised the purchase price allocation within 12 months from the acquisition date.

The purchase consideration comprises cash and cash equivalents paid in 2007 of USD 94,018 and deferred consideration of USD 25,421, part of which in the amount of USD 13,350 was paid during the year ended 31 December 2008.

The goodwill recognised is attributable to: i) the business concentration in the Lipetsk region ii) expected synergetic effects and iii) favorable locations of retail outlets in Lipetsk city.

Strana Gerkulesia

In December 2007 the Group acquired 100% of the voting shares of OOO "Rubin TK" and OOO "RPH Nedvizhimost" operating retail grocery stores in Moscow and in the Moscow region under "Strana Gerkulesia" brand. The Group acquired a total of 29 discounter stores. Five stores are located in Moscow, 16 stores operate close to Moscow and 8 stores are located in other areas of the Moscow region and in Tver region.

In the year ended 31 December 2007 the acquired business of Strana Gerkulesia did not contribute revenue and net profit to the Group. If the acquisition of Strana Gerkulesia had occurred on 1 January 2007, the Group's revenue for 2007 would have been USD 5,402,032 and the Group's profit for 2007 would have been USD 143,046. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Strana Gerkulesia.

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

7 ACQUISITION OF SUBSIDIARIES (continued)

Strana Gerkulesia (continued)

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

	Acquiree's carrying amount, Russian GAAP*	Fair values
Cash and cash equivalents	2,408	2,290
Inventory of goods for resale	8,252	4,179
Trade and other accounts receivable	29,754	4,826
Intangible assets (Note 13)	-	3,682
Property, plant and equipment (Note 10)	3,748	27,645
Deferred tax assets	-	3,264
Other assets	34	172
Short-term borrowings	(6,347)	(1,886)
Trade and other accounts payable	(14,012)	(13,460)
Provisions and liabilities for tax uncertainties (Note 19)	-	(8,714)
Long-term borrowings	-	(100)
Deferred tax liability	-	(5,650)
Net assets acquired	23,837	16,248
Goodwill (Note 12)		51,926
Total acquisition cost		**68,174**
Net cash outflow arising from the acquisition for the year ended 31 December 2007		**60,312**

* 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. During the year ended 31 December 2008 the provisional values were updated as described in the Note 2.29. The Group has finalised the purchase price allocation within 12 months of the acquisition date.

The purchase consideration comprises cash and cash equivalents paid in 2007 of USD 39,078, loan of USD 23,524 originated to OOO "Rubin TK" at the moment of acquisition and deferred consideration of USD 5,571, part of which in the amount USD 5,073 was paid during the year ended 31 December 2008.

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

Other acquisitions

In November 2007 the Group acquired several other companies. Their primary activity is operating trade centers and earning rental income. No goodwill was recognised on these acquisitions.

In the year ended 31 December 2007 the acquired businesses of other acquisitions did not contribute significant revenue or significant profit to the Group. If other acquisitions had occurred on 1 January 2007, the Group's revenue and profit would have not changed significantly. Estimates of the contribution of revenue and profit to the Group are based on unaudited information derived from the previous management accounts.

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

7 ACQUISITION OF SUBSIDIARIES (continued)

Other acquisitions (continued)

Details of assets and liabilities acquired are as follows:

	Acquiree's carrying amount, Russian GAAP*	Fair values
Cash and cash equivalents	2,984	2,984
Loans originated	46	46
Inventory of goods for resale	1	1
Trade and other accounts receivable	2,923	2,923
Property, plant and equipment	20,946	43,314
Investment property	-	77,524
Short-term borrowings	(14,603)	(14,603)
Trade and other accounts payable	(3,251)	(3,250)
Long-term borrowings	(1,418)	(1,418)
Deferred tax liability	-	(22,287)
Net assets acquired	7,628	85,234
Total acquisition cost		**85,234**
Net cash outflow arising from the acquisition the year ended 31 December 2007		**56,843**

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

The Group has finalised the purchase price allocation within 12 months of the acquisition date.

The purchase consideration paid in 2007 comprises cash and cash equivalents paid of USD 59,827 and loans receivable of USD 25,407 out of which USD 20,157 were issued in 2007 and USD 5,250 issued in 2005.

Associate

Retail Express

In 2008 the Group contributed to 40% share capital of Retail Express Ltd in the amount of USD 12,000.

At 31 December 2008 summarised financial information of Retail Express Limited, including total assets, liabilities, revenues and profit or loss, were as follows:

	31 December 2008
Assets	59,220
Liabilities	35,463
Revenue for the year	12,153
Loss for the year	(1,618)

As at 31 December 2008 the Group considers that the fair value of the investment approximates its carrying amount.

A5 Pharmacy chain

In December 2008 the Group entered into a partnership agreement with A5 Pharmacy Chain according to which the Group grants A5 Pharmacy Chain preemptive rights to rent space adjacent to the Group's food retail stores at commercial market rates. On the earliest of 01 January 2011 or one month after the date when annual consolidated revenue of A5 Pharmacy Chain exceeds USD 400,000 the Group will obtain shares of A5 Pharmacy Chain calculated as 25% of value of A5 Pharmacy Chain business located on the Group's premises. Consequently, the Group will have the right to purchase the remaining A5 Pharmacy Chain shares for the higher of initial realization price defined by appraisals and auction best offered price. There were no material costs incurred for entering into the option.

8 RELATED PARTY TRANSACTIONS

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

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

8 RELATED PARTY TRANSACTIONS (continued)

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 31 December 2008 are provided below. The ultimate controlling party is disclosed in Note 1.

Alfa Group

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

	Relationship	2008	2007
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,302	1,315
Recharged expenses		545	
OAO "Alfa-Bank"	Under common control		
Interest expense on loans received		21,578	2,622
Bank charges		1,487	495
Rent revenue		200	208
Penalty		29	-
Other accounts payable		570	-
Receivables from related parties		118	225
Short-term loans payable		168,480	2,649
Cash and cash equivalents		17,261	10,684
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services rendered by VimpelCom to the Group		469	532
Commission for mobile phone payments processing rendered by the Group to VimpelCom		765	633
Other accounts payable		213	18
Receivables from related parties		271	102
Golden Telecom	Under significant influence of CTF Holdings Ltd.		
Communication services received		3,132	2,010
Other accounts payable		226	-
Receivables from related parties		674	159
Other related parties			
OOO "Makromir"	Under common control		
Construction services provided to the Group		2,653	1,512
Other operating income		121	-
Other operating expenses		44	-
Advances for construction in progress		8,629	742
Accounts payable		10,181	-
Retail Express Ltd	Associate of the Group (Note 7)		
Interest income		37	-
Loans and receivables		27	-
Investment in associate		12,000	

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

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

8 RELATED PARTY TRANSACTIONS (continued)

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of 309,730 USD (31 December 2007: USD 150,000). At 31 December 2008 the Group's liability under this credit line amounted to USD 168,480 with interest rates 14.00 - 19.60% p.a. (31 December 2007: USD 2,649) and available credit line of USD 141,250 (31 December 2007: USD 147,351).

Key management personnel compensation

Key management personnel compensation is disclosed in Note 28.

9 CASH AND CASH EQUIVALENTS

	31 December 2008	31 December 2007
Cash in hand – Roubles	18,742	12,197
Cash in hand – Ukrainian Hryvnia	196	137
Bank current account – Roubles	72,576	46,525
Bank current account – Ukrainian Hryvnia	-	177
Bank current accounts and deposits – US Dollars	45,598	2,741
Cash in transit – Roubles	63,397	112,264
Cash in transit – Ukrainian Hryvnia	554	754
Short term deposits US Dollars	72,000	-
Other cash equivalents US Dollars	3,774	4,701
	276,837	**179,496**

The bank accounts represent current accounts with an effective interest rate of nil. Cash in transit is cash transferred from retail outlets to bank accounts and bank card payments being processed.

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

Credit quality of cash and cash equivalents balances may be summarized as follows (2008 year ratings):

Bank	Moody's	Fitch	S&P	31 December 2008	31 December 2007
Alfabank	Ba1	BB-	BB-	17,237	12,328
Raiffeisenbank	Baa3	BBB+	BBB	140,568	6,160
Sberbank	Baa1	BBB	-	28,243	19,351
VTB	Baa1	BBB	BBB	1,889	6,367
Other banks				1,995	5,237
Cash in transit and in hand				82,889	125,352
Other monetary assets				4,016	4,701
Total				**276,837**	**179,496**

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

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Refrigera-ting equipment	Vehicles	Other	Construc-tion in progress	Total
Cost:							
At 1 January 2007	855,310	141,749	89,134	12,690	92,509	209,078	1,400,470
Additions	144,547	825	4,363	1,143	16,675	443,081	610,634
Transfers	350,347	31,082	23,614	14,453	12,327	(431,823)	-
Assets from acquisitions (Note 7)	106,172	1,761	2,881	150	7,823	1,980	120,767
Disposals	(5,295)	(971)	(2,090)	(277)	(6,031)	(2,407)	(17,071)
Translation movement	81,098	12,528	7,267	2,237	6,620	14,088	123,838
At 31 December 2007	1,532,179	186,974	125,169	30,396	129,923	233,997	2,238,638
Additions	175,310	7,875	1,800	263	4,627	705,989	895,864
Transfers	415,159	73,567	46,526	(1,452)	(43,191)	(513,419)	(22,810)
Assets from acquisitions (Note 7)	866,541	57,819	22,215	283	18,575	73,070	1,038,503
Disposals	(4,233)	(2,340)	(737)	(501)	(2,393)	(179)	(10,383)
Translation movement	(509,209)	(53,841)	(32,562)	(4,756)	(18,543)	(83,282)	(702,193)
At 31 December 2008	2,475,747	270,054	162,411	24,233	88,998	416,176	3,437,619
Accumulated depreciation:							
At 1 January 2007	(47,351)	(43,146)	(16,869)	(1,530)	(25,741)	-	(134,637)
Charge for the year	(48,954)	(22,504)	(16,294)	(1,354)	(17,945)	-	(107,051)
Disposals	193	1,873	284	64	1,632	-	4,046
Translation movement	(3,105)	(4,307)	(609)	(103)	(2,314)	-	(10,438)
At 31 December 2007	(99,217)	(68,084)	(33,488)	(2,923)	(44,368)	-	(248,080)
Charge for the year	(88,082)	(37,086)	(23,069)	(3,752)	(6,081)	-	(158,070)
Disposals	629	620	512	306	660	-	2,727
Translation movement	26,388	16,621	9,024	336	10,975	-	63,344
At 31 December 2008	(160,282)	(87,929)	(47,021)	(6,033)	(38,814)	-	(340,079)
Net book value at 31 December 2008	**2,315,465**	**182,125**	**115,390**	**18,200**	**50,184**	**416,176**	**3,097,540**
Net book value at 31 December 2007	**1,432,962**	**118,890**	**91,681**	**27,473**	**85,555**	**233,997**	**1,990,558**
Net book value at 31 December 2006	**807,959**	**98,603**	**72,265**	**11,160**	**66,768**	**209,078**	**1,265,833**

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

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 35). Certain land leases are prepaid for a 49 year term. Such prepayments are presented as prepaid leases in the balance sheet and amount to USD 90,831 (31 December 2007: USD 60,612).

Refer to Note 20 for property, plant and equipment pledged as collateral for borrowings.

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

11 INVESTMENT PROPERTY

The Group held the following investment properties at 31 December 2008 and 31 December 2007:

Cost:	**2008**	**2007**
Cost at 1 January	132,595	41,446
Additions	3,034	9,173
Assets from acquisitions	-	77,524
Transfer from fixed assets	22,809	-
Translation movement	(27,441)	4,452
Cost at 31 December	130,997	132,595
Accumulated depreciation:		
Accumulated depreciation at 1 January	(3,589)	(1,426)
Charge for the year	(4,668)	(1,976)
Translation movement	2,953	(187)
Accumulated depreciation at 31 December	(5,304)	(3,589)
Net book value at 31 December	**125,693**	**129,006**
Net book value at 1 January	**129,006**	**40,020**

Rental income from investment property amounted to USD 22,141 (2007: USD 9,861). Direct operating expenses incurred by the Group in relation to investment property amounted to USD 6,271 (2007: 6,158).

Management estimates that the fair value of investment property at 31 December 2008 amounted to USD 130,844 (31 December 2007: USD 179,065).

12 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 31 December 2008 and 31 December 2007 are:

	2008	**2007**
Cost:		
Gross book value at 1 January	2,955,625	2,629,046
Acquisition of subsidiaries (Note 7)	327,285	137,724
Translation to presentation currency	(550,513)	188,855
Gross book value at 31 December	2,732,397	2,955,625
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	-	-
Accumulated impairment losses at 31 December	(2,257,020)	-
Carrying amount at 31 December	**475,377**	**2,955,625**
Carrying amount at 1 January	**2,955,625**	**2,629,046**

Goodwill Impairment Test

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

Management considers recent volatility in global and country financial markets which commenced in the middle of 2008 as a primary indicator for goodwill impairment to be recognized.

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.

Fair value less costs to sell

The Group defines fair value less costs to sell of the CGU by reference to an active market, i.e. as a market capitalization of the Group on the London stock exchange, since the Group's activities other than retail trade in Russia insignificantly affects the fair value. The market capitalization of the Group at 31 December 2008 amounted to USD 1,638,432. Management assumed market expectations of USD 24.16 per share, based on weighted average share price for the period from 20 - 26 January 2009 as the most relevant market capitalization of the Group for impairment test purposes.

The share price decrease to USD 17.15 per share taken in isolation would result in fully impaired goodwill as at 31 December 2008.

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

12 GOODWILL (continued)

Goodwill Impairment Test (continued)

Value in use

Discounted free cash flow approach, based on current acquisition valuation models, was utilized. For the period from 2009 until 2013 the free cash flows are based on the current budgets and forecasts approved by key management. The projections are made in the functional currency of the Group and discounted at the Group weighted average cost of capital, 22% in RUR nominal terms. The Group's management believes that all of its estimates are reasonable: they are consistent with the internal reporting and reflect management's best estimates. As the result of the assessment value in use amounted to USD 1,632,448.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

EBITDA growth rate	8%
After-tax discount rate	22%

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

Impairment Test

The fair value less costs to sell exceeded the value in use and, thus, was taken as the recoverable amount for the purpose of the impairment test. The carrying amount of the CGU exceeded its recoverable amount therefore impairment loss was recognised in amount of USD 2,257,020.

As at 31 December 2008 the share premium was presented net of the impairment loss in respect of a Goodwill originally recognized on issuance of shares as consideration for Pyaterochka Holding N.V. and Formata Holding B.V. acquisitions in May 2006 and in June 2008 respectively. The effect of net off amounted to USD 2,190,188.

Based on acquisition share price	**Number of shares**	**Share consideration**
Formata Holding B.V	1,746,505	231,237
Pyaterochka Holding N.V.	38,306,785	2,926,639
		3,157,876
Based on share price used in impairment test		
Formata Holding B.V	1,746,505	(42,196)
Pyaterochka Holding N.V.	38,306,785	(925,492)
		(967,688)
Total Effect on Goodwill		**2,190,188**

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

13 INTANGIBLE ASSETS

Intangible assets comprise the following:

	Brand and private labels	Franchise agreements	Software and other	Lease rights	Total
Cost:					
At 1 January 2007	331,215	71,526	5,858	104,816	513,415
Additions	310	-	450	-	760
Acquisition of subsidiaries (Note 7)	1,306	-	38	27,948	29,292
Disposals	(93)	-	(154)	-	(247)
Translation movement	26,111	5,201	388	6,754	38,454
At 31 December 2007	358,849	76,727	6,580	139,518	581,674
Additions	-	-	8,361	-	8,361
Acquisition of subsidiaries (Note 7)	124,196	-	437	8,146	132,779
Disposals	(1,294)	(271)	-	-	(1,565)
Translation movement	(83,186)	(12,583)	(2,456)	(24,777)	(123,002)
At 31 December 2008	398,565	63,873	12,922	122,887	598,247
Accumulated amortisation:					
At 1 January 2007	(10,434)	(4,581)	(2,680)	(3,461)	(21,156)
Charge for the year	(17,982)	(7,670)	(3,060)	(4,637)	(33,349)
Disposals	-	-	119	-	119
Translation movement	(1,709)	(659)	(260)	(415)	(3,043)
At 31 December 2007	(30,125)	(12,910)	(5,881)	(8,513)	(57,429)
Charge for the year	(23,077)	(20,982)	(4,526)	(13,914)	(62,499)
Disposals	1,293	-	-	-	1,293
Translation movement	7,677	5,356	2,953	3,590	19,576
At 31 December 2008	(44,232)	(28,536)	(7,454)	(18,837)	(99,059)
Net book value at 31 December 2008	**354,333**	**35,337**	**5,468**	**104,050**	**499,188**
Net book value at 31 December 2007	**328,579**	**63,817**	**701**	**131,149**	**524,246**
Net book value at 31 December 2006	**320,781**	**66,945**	**3,178**	**101,355**	**492,259**

14 INVENTORIES OF GOODS FOR RESALE

Inventories as of 31 December 2008 and 31 December 2007 comprise the following:

	31 December 2008	31 December 2007
Goods held for resale	496,144	333,934
Less: provision for shrinkage	(13,986)	(8,694)
	482,158	**325,240**

Inventory shrinkage recognised as cost of sales in the consolidated income statement amounted to USD 126,245 (2007: USD 74,436).

15 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Financial assets at fair value through profit and loss	Total
31 December 2008			
Assets as per balance sheet			
Derivative financial instruments	-	765	765
Trade and other receivables excluding prepayments	81,983	-	81,983
Loans originated	359	-	359
Cash and cash equivalents	276,837	-	276,837
Total	**359,179**	**765**	**359,944**

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

15 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Derivatives used for hedging	Financial liabilities at amortised cost	Total
31 December 2008			
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities)	-	2,059,401	2,059,401
Interest accrued		9,089	9,089
Finance lease liabilities	-	4,040	4,040
Derivative financial instruments	18,180	-	18,180
Trade and other payables excluding statutory liabilities	-	1,432,912	1,432,912
Total	**18,180**	**3,505,442**	**3,523,622**

	Loans and receivables	Financial assets at fair value through profit and loss	Total
31 December 2007			
Assets as per balance sheet			
Derivative financial instruments	-	1,500	1,500
Trade and other receivables excluding prepayments	83,343	-	83,343
Loans originated	145	-	145
Cash and cash equivalents	179,496	-	179,496
Total	**262,984**	**1,500**	**264,484**

	Derivatives used for hedging	Financial liabilities at amortised cost	Total
31 December 2007			
Liabilities as per balance sheet			
Borrowings (excluding finance lease liabilities)	-	1,718,417	1,718,417
Interest accrued	-	2,763	2,763
Finance lease liabilities	-	3,560	3,560
Trade and other payables excluding statutory liabilities	-	1,141,063	1,141,063
Total		**2,865,803**	**2,865,803**

16 TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2008	31 December 2007
Trade accounts receivable	71,145	61,390
Advances made to trade suppliers	27,831	11,333
Other receivables	13,366	25,259
Prepayments	79,173	53,970
Accounts receivable for franchise services	646	2,762
Receivables from related parties (Note 8)	9,719	1,508
Provision for impairment of trade and other receivables	(12,894)	(7,576)
	188,986	**148,646**

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

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

Trade receivables

There are balances of USD 12,997 that are past due but not impaired as at 31 December 2008 (31 December 2007: USD 8,935).

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

	31 December 2008	31 December 2007
2-6 months	10,840	5,542
Over 6 months	2,157	3,393
	12,997	**8,935**

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

16 TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Trade receivables (continued)

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

	2008	2007
At 1 January	(5,787)	(3,206)
Accrual of provision for receivables impairment	(10,014)	(3,871)
Release of provision for receivables impairment	2,861	1,618
Translation movement	1,707	(328)
At 31 December	**(11,233)**	**(5,787)**

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

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

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

	31 December 2008	31 December 2007
3-6 months	1,843	281
Over 6 months	9,390	5,991
	11,233	**6,272**

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

Other receivables and receivables for franchise services

There are balances of USD 6,945 that are past due but not impaired as at 31 December 2008 (31 December 2007: USD 14,857).

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

	31 December 2008	31 December 2007
2-6 months	3,058	14,321
Over 6 months	3,887	536
	6,945	**14,857**

Movements on the provision for impairment of other receivables for the year ended 31 December 2008 are as follows:

	2008	2007
At 1 January	(1,789)	(2,526)
Accrual of provision for receivables impairment	(276)	(962)
Release of provision for receivables impairment	79	1,846
Translation movement	325	(147)
At 31 December	**(1,661)**	**(1,789)**

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

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

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

	31 December 2008	31 December 2007
3-6 months	344	834
Over 6 months	1,317	3,542
	1,661	**4,376**

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

16 TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Other receivables and receivables for franchise services (continued)

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

17 VAT AND OTHER TAXES RECOVERABLE

	31 December 2008	31 December 2007
VAT recoverable	248,185	194,264
Other taxes recoverable	5,079	1,488
	253,264	**195,752**

VAT recoverable related to property, plant and equipment of USD 71,981 (31 December 2007: USD 45,466) is recorded within current assets because management expects it will be recovered within 12 months after the balance sheet date. Timing of the VAT refund depends on the registration of certain property, plant and equipment, therefore there are risks that recovering the balance may take longer than twelve months.

18 DERIVATIVES

As at 31 December 2008 the Group recognised a call option for the purchase of a 25% share in subsidiaries (Note 7) in the amount of USD 765 (as at 31 December 2007 call option for a 49% share in subsidiaries in the amount of USD 1,500 was recognized). The option is exercisable until 30 June 2009.

The Group applied hedge accounting to an interest rate swap initiated in February 2008 (Note 31). As at 31 December 2008 the negative fair value of the interest rate swap of USD 18,180 was recognised in Equity.

None of the derivatives are past due or impaired.

19 PROVISIONS AND OTHER LIABILITIES

	31 December 2008	31 December 2007
Taxes other than income tax	51,147	38,727
Provisions and liabilities for tax uncertainties (Note 35)	110,619	76,708
Accrued salaries and bonuses	99,636	81,680
Payables to landlords	4,885	3,290
Other accounts payable and accruals	114,255	55,817
Accounts payable for services received	18,713	16,211
Accounts payable for property, plant and equipment	21,280	11,458
Advances received	37,403	25,355
	457,938	**309,246**

There are no significant amounts of foreign accounts payable as at 31 December 2008 and 31 December 2007.

20 BORROWINGS

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

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

20 BORROWINGS (continued)

		31 December 2007		
	Interest rate, % p.a.	**Current During 1 year**	**Non-current In 1 to 3 years**	**Total**
USD Syndicated loan	Libor+2.25%	-	1,083,226	1,083,226
USD Bilateral Loans	6.1%-10.7%	123,800	1,422	125,222
RUR Bonds	7.6%-11.45%	122	380,024	380,146
RUR Bilateral Loans	6,5%-13%	129,811	12	129,823
Total borrowings		**253,733**	**1,464,684**	**1,718,417**

In December 2007 the Group raised a 3 year syndicated loan facility of USD 1,100,000 from a consortium of banks. The margin for the first year was 2.25% per annum over LIBOR. In December 2008 the margin changed from 2.25% to 1.5% in accordance with an agreed the Net Debt/EBITDA grid. LIBOR is fixed from a one to six month period. The Group has pledged as collateral for the syndicated loan 100% of the voting shares in its subsidiaries, including OOO "Agrotorg", OOO "Agroaspekt", Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO "TH "Perekrestok", OOO "Perekrestok-2000".

During the forth quarter of 2008 the Group repaid part of the secured Karusel loans and the remaining part of those loans is collaterized by 100% of the shares OOO "Stalebeton", OOO "Ukatan", OOO "Krasnoborskoe", OOO "Emitel", OOO "Matrix", OOO "Kollontai", OOO "Dal'nevostochny", OOO"Kaizer-Ural" land and buildings with a net book value of USD 329,152.

In July 2007 the Group placed a RR 9,000 million (USD 304,986) bond. The 7-year bond pays semiannual coupons. Coupons 1 to 6 are equal and amount to 7.60% per annum, the rest to be defined by the Group later. The holders have the right to ask for redemption of the bonds at par in 3 years. The funds raised by the bonds were used to refinance other outstanding bond issues of the Group.

As a result of the Karusel acquisition a RR 3,000 million (USD 102,109) bond was added to the Group borrowings. Bonds have been placed in September 2006 with an interest rate at 9.75% per annum for 1-4 semiannual coupons, 12% per annum for 5 -14 semiannual coupons and the maturity in September 2013. In September 2008 the Group fulfilled its obligations to the holders of Karusel Finance bonds in accordance with the put option exercisable on 18 September 2008, the Company purchased 99,6% of the outstanding bonds from the holders. Bond liabilities were RR 12.6 million (USD 429) as at 31 December 2008.

The Group announced that on 30 July 2008 it's wholly owned subsidiary X5 Finance LLC has approved a bond prospectus ("Prospectus") with respect to two tranches of corporate rouble bonds series 4 and 5 and in September 2008 registered the Prospectus in the Russian Federal Financial Markets Service. In accordance with the Prospectus, the bonds will have a maturity of 7 years. Notional amount of each tranche will total RR 8,000 million (8 million bonds at a par value of RR 1,000). The bonds are non-convertible, interest bearing and documentary.

All borrowings at 31 December 2008 are shown net of related transaction costs of USD 13,726 which are amortised over the term of loans using the effective interest method (31 December 2007: USD 18,884).

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

21 SHARE CAPITAL

As at 1 January 2007 the Group had 53,217,760 ordinary shares issued and fully paid. The nominal par value of each ordinary share is EUR 1. The Group has only one class of ordinary shares.

During 2007 the Group repurchased 40,000 ordinary shares for general corporate purposes, including funding the employees` share option program (ESOP) liabilities and potential acquisitions. 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 authorised 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.

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

21 SHARE CAPITAL (continued)

As part of the acquisition of Karusel (Note 7) in June 2008 the Group issued an additional 1,746,505 ordinary shares which were transferred to Karusel shareholders in exchange for ¼ shares of Formata.

During 2008 in order to hedge the Group's obligations under its Employee Stock Option Plan Group's wholly owned subsidiary Perekrestok Holdings Limited purchased shares in the capital of its parent company X5. The purchases of shares can be summarized as follows:

Period	July	September	October- November
Number of GDRs purchased	267,482	49,600	30,000
Average market price	29.35	20.66	7.56

During 2008 30,000 options were exercised. As at 31 December 2008 the Group had 79,271 ordinary shares held as treasury stock.

As at 31 December 2008 the Group had 190,000,000 authorized ordinary shares of which 67,813,947 ordinary shares are outstanding. As at 31 December 2008 the fair value of outstanding shares amounted to USD 2,332,800.

No dividends were paid or declared during the year ended 31 December 2008 or the year ended 31 December 2007.

22 EARNINGS PER SHARE

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

Earnings per share are calculated as follows:

	2008	2007
(Loss)/Profit attributable to equity holders of the Parent	(2,138,287)	143,748
Weighted average number of ordinary shares in issue	63,928,885	57,352,404
Effect of share options granted to employees	-	143,894
Weighted average number of ordinary shares for the purposes of diluted earnings per share	63,928,885	57,496,298
Basic (losses)/earnings per share for profit from continuing operations (expressed in USD per share)	**(33.45)**	**2.51**
Diluted (losses)/earnings per share for profit from continuing operations (expressed in USD per share)	**(33.45)**	**2.50**

Basic and diluted earnings per share for the year ended 31 December 2007 changed from 2.70 and 2.69 correspondently to 2.51 and 2.50 due to rights issue in the year ended 31 December 2008 (Note 21).

23 REVENUE

	2008	2007
Revenue from sale of goods	8,319,821	5,295,092
Revenue from franchise services	11,029	12,507
Revenue from other services	22,400	12,825
	8,353,250	**5,320,424**

24 EXPENSES BY NATURE

	2008	2007
Cost of goods sold	6,044,109	3,846,268
Staff costs (Note 29)	858,813	556,255
Operating lease expenses	260,161	184,635
Depreciation and amortisation	225,238	142,376
Other store costs	165,114	99,089
Utilities	134,789	78,086
Other	216,624	144,830
Before Goodwill Impairment	**7,904,848**	**5,051,539**
Goodwill Impairment	2,257,020	-
After Goodwill Impairment	**10,161,868**	**5,051,539**

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

24 EXPENSES BY NATURE (continued)

Operating lease expenses include USD 243,030 (2007: USD 176,143) of minimum lease payments and contingent rents of USD 17,131 (2007: USD 8,492).

Provision for impairment of trade and other receivables amounted to USD 7,350 for the year ended 31 December 2008 (2007: USD 1,369).

25 OPERATING LEASE INCOME

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

	2008	2007
Not later than 1 year	44,692	28,380
Later than 1 year and no later than 5 years	18,544	17,820
Later than 5 years	5,343	5,730
	68,579	**51,930**

The rental income from operating leases recognised in the income statement amounted to USD 89,918 (2007: 67,992 USD). There were no contingent rents recognised in the income statement in the year ended 31 December 2008 (2007: nil).

26 FINANCE INCOME AND COSTS

	2008	2007
Interest expense	149,723	101,753
Interest income	(10,330)	(7,230)
Other finance costs, net	9,112	31,266
	148,505	**125,789**

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

27 NET FOREIGN EXCHANGE (LOSS)/GAIN

	2008	2007
Foreign exchange (loss)/gain	(267,187)	67,195
Mark-to-market result on foreign exchange collar	-	(35,650)
	(267,187)	**31,545**

In the year 2007 the Group used a foreign exchange collar with leading banking institutions to mitigate foreign currency risks associated with the syndicated loan.

28 STAFF COSTS

	2008	2007
Wages and salaries	729,556	449,496
Social security costs	131,708	59,050
Share-based payments expense	(2,451)	47,709
	858,813	**556,255**

Key executive management personnel

X5's key management personnel consists of Management and Supervisory Board members, having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Members of the Management Board and Supervisory Board of the Group receive compensation in the form of a short-term compensation in cash (including, for Management Board members, a cash bonus) and share-based payments (Note 29). For the year ended 31 December 2008 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 6,793 (2007: USD 8,217), including bonuses of USD 2,871 (2007: USD 4,437). The compensation is made up of annual remuneration and a performance bonus depending on, inter alia, operating results. As at 31 December 2008 the total amount of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 2,814,375 (31 December 2007: 1,950,000 GDRs). The total intrinsic value of vested share options amounted to zero as at 31 December 2008 (31 December 2007: USD 19,795).

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

29 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 will run in four tranches that will be 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 the second tranche vested on 18 May 2008. The initial exercise prices of the first and second tranches were USD 18.00 and USD 30.62 per GDR accordingly. As a result of a new share issue in May 2008 the share price dilution could affect expected market value of the GDRs granted under the ESOP. To mitigate the effect the Group decided to adjust the exercise price of the options granted under the first and second tranches to USD 15.96 for the first tranche and USD 28.58 for the second tranche and increase the total number of GDRs under the ESOP to 11,261,264 GDRs (31 December 2007: 10,824,008 GDRs). In May 2008 the third tranche was granted at the exercise price of USD 33.43. The third tranche will vest on 19 May 2009. Participants of the ESOP can exercise their share options granted under first, second and third tranches any time over the period from vesting till 19 November 2010, 16 December 2011 and 20 November 2012 respectively. However, as noted below management considers that the participants will not exercise their options within the next 12 months.

In total, during the year ended 31 December 2008 the Group recognised income related to the ESOP in the amount of USD 2,451 (expenses during the year ended 31 December 2007: USD 47,708). At 31 December 2008 the share-based payments liability amounted to USD 37,921 (31 December 2007: USD 45,597). The equity component was effectively zero at 31 December 2008 (31 December 2007: zero).

Details of the share options outstanding during the year ended 31 December 2008 are as follows:

	Number of share options	Weighted average exercise price, USD	Weighted average GDR price, USD
Outstanding at the beginning of the period	3,583,000	26.9	
Granted during the period	2,918,825	33.4	
Exercised during the period	(468,000)	23.6	35.0
Cancelled during the period	(329,000)	28.6	
Outstanding at the end of the period	**5,704,825**	**28.9**	
Exercisable at 31 December 2008	2,786,000	24.2	

The total intrinsic value of vested share options was zero as at 31 December 2008 (31 December 2007: USD 21,183).

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 fair value of the share options is measured based on the Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 31 December 2008 were as follows:

Average GDR price for the period of July to December 2008	17.1
Expected volatility	76%
Risk-free interest rate	5%
Dividend yield	0%

30 INCOME TAX

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax charge	178,244	120,814
Deferred income tax benefit	(129,196)	(21,889)
Deferred tax benefit resulting from reduction in tax rate**	(40,942)	-
Income tax charge for the year	**8,106**	**98,925**

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

30 INCOME TAX (continued)

The theoretical and effective tax rates are reconciled as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
(Loss)/Profit before taxation	(2,130,181)	242,673
Theoretical tax at the effective statutory rates *	(511,243)	58,242
Tax effect of items which are not deductible or assessable for taxation purposes:		
Goodwill impairment	541,492	-
Reduction in deferred taxes closing balance resulting from reduction in tax rate**	(40,942)	-
Share-based payments expenses	517	9,952
Effect of income taxable at rates different from standard statutory rates	40,043	(11,241)
Effect of different tax regime in parent company	(38,590)	-
Recognition of DT asset on prior losses for which no DT asset was previously recognised	(20,356)	-
Expenses on inventory shrinkage and surpluses	42,530	33,862
Other non-deductible expenses and non-taxable income	(5,346)	8,110
Income tax charge for the year	**8,106**	**98,925**

* Profit before taxation on Russian operations is assessed based on the statutory rate of 24%, profit before taxation on Ukrainian operations is assessed based on the statutory rate of 25%.

** An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009.

Deferred income tax

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

	31 December 2007	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2008
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	16,713	43,968	-	(9,526)	51,155
Property, plant and equipment	7,529	13,606	656	(5,518)	16,273
Intangible assets	53	1,213	-	(870)	396
Accounts Receivable	15,157	29,012	273	(7,546)	36,896
Liability for share based expenses	573	(566)	-	(7)	-
Other	21,519	17,834	6,811	(7,345)	38,819
Gross deferred tax asset	**61,544**	**105,067**	**7,740**	**(30,812)**	**143,539**
Less offsetting with deferred tax liabilities	(29,923)	(26,000)	(477)	9,046	(47,354)
Recognised deferred tax asset	**31,621**	**79,067**	**7,263**	**(21,766)**	**96,185**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(125,212)	46,178	(130,616)	39,079	(170,571)
Intangible assets	(108,299)	21,758	(26,232)	19,655	(93,118)
Accounts Receivable	(3,298)	(3,853)	(633)	1,234	(6,550)
Other	(6,436)	989	(6,322)	2,430	(9,339)
Gross deferred tax liability	**(243,245)**	**65,072**	**(163,803)**	**62,398**	**(279,578)**
Less offsetting with deferred tax assets	29,923	26,000	477	(9,046)	47,354
Recognised deferred tax liability	**(213,322)**	**91,072**	**(163,326)**	**53,352**	**(232,224)**

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

30 INCOME TAX (continued)

Deferred tax

Deferred tax assets and liabilities and the deferred tax charge in the income statement are attributable to the following items for the year ended 31 December 2007:

	31 December 2006	Credited to profit and loss	Deferred tax on business combinations (Note 7)	Recognised in equity for translation differences	31 December 2007
Tax effects of deductible temporary differences and tax loss carryforwards:					
Tax losses available for carry forward	-	16,341	-	372	16,713
Property, plant and equipment	7,675	(676)	-	530	7,529
Intangible assets	-	51	-	2	53
Accounts Receivable	5,775	5,853	2,748	781	15,157
Liability for share based expenses	16,284	(16,214)	-	503	573
Other	8,650	8,575	2,404	1,890	21,519
Gross deferred tax asset	**38,384**	**13,930**	**5,152**	**4,078**	**61,544**
Less offsetting with deferred tax liabilities	(19,758)	(6,829)	(1,406)	(1,930)	(29,923)
Recognised deferred tax asset	**18,626**	**7,101**	**3,746**	**2,148**	**31,621**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(84,545)	4,151	(38,981)	(5,837)	(125,212)
Intangible assets	(112,817)	13,080	(991)	(7,571)	(108,299)
Accounts Receivable	-	(3,222)	-	(76)	(3,298)
Other	-	(6,050)	(213)	(173)	(6,436)
Gross deferred tax liability	**(197,362)**	**7,959**	**(40,185)**	**(13,657)**	**(243,245)**
Less offsetting with deferred tax assets	19,758	6,829	1,406	1,930	29,923
Recognised deferred tax liability	**(177,604)**	**14,788**	**(38,780)**	**(11,726)**	**(213,322)**

Temporary differences on unremitted earnings of certain subsidiaries amounted to USD 571,164 (2007: USD 276,742) for which the deferred tax liability was not recognised as such amounts are being reinvested for the foreseeable future.

The current portion of the deferred tax liability amounted to USD 26,369 (31 December 2007: USD 23,289), the current portion of the deferred tax asset amounted to USD 32,650 (31 December 2007: USD 7,580).

Management believes that future taxable profits in tax jurisdictions that suffered loss in current or preceding years will be available to utilise deferred tax asset of USD 51,155 recognised at 31 December 2008 for the carryforward of unused tax loss. Deductible unused tax losses are utilized during a period of from seven to nine years.

31 FINANCIAL RISKS MANAGEMENT

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

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

31 FINANCIAL RISKS MANAGEMENT (continued)

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. The Group has a substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 20). Therefore the Group Treasury's risk management policy is primarily to hedge anticipated cash outflows associated with borrowings in US dollar in 2007. The Group used foreign exchange collars with leading banking institutions to hedge currency risks associated with the syndicated loan (Note 20). The Group does not hedge general translational exposures, thus there are no outstanding FX hedging instruments as at 31 December 2008 and the recent market volatility has not negatively impacted the Group's liquidity.

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

At 31 December 2008, if the Russian Rouble had weakened/strengthened by 20% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 231,350 (31 December 2007: USD 34,426) lower/higher, mainly as a result of foreign exchange losses/gains on US dollar denominated borrowings. The movemenr in currency variable was changed from 5% used on 31 December 2007 to 20% used on 31 December 2008. The reason for change is explained by recent volatility in global and country financial markets.

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 Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. It is the Group policy to manage cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

In 2007 the Group used an interest rate swap with leading banking institutions to hedge the interest rate of USD denominated loans. The effect of the swap on profit or loss of 2007 was insignificant. The new syndicated loan for USD 1,100,000 was hedged against interest rate risk in February 2008 (Note 20). The Group regarded the interest rate swap initiated in February 2008 as a hedging instrument and applied hedge accounting (Note 18).

At 31 December 2008, if LIBOR at that date had been 50 basis points lower/higher with all other variables held constant, post-tax profit for the year would have been USD 4,133 (31 December 2007: USD 1,362) higher/lower.

(b) Credit risk

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

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by the Group Treasury.

Management monitors monthly rolling forecasts of the group's cash flows. The Group manages liquidity requirements by the use of both short- and long-term projections and by maintaining the availability of funding from an adequate amount of committed credit facilities.

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

31 FINANCIAL RISKS MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

Year ended 31 December 2008

	During 1 year	In 1 to 3 years
Borrowings	593,485	1,643,696
Trade payables	1,174,144	-
Gross finance lease liabilities	2,197	1,843
Derivative financial liabilities	18,180	-
Other finance liabilities	258,769	-
	2,046,775	**1,645,539**

Year ended 31 December 2007

	During 1 year	In 1 to 3 years
Borrowings	374,030	1,665,661
Trade payables	971,570	-
Gross finance lease liabilities	2,280	1,280
Other finance liabilities	163,124	-
	1,511,004	**1,666,941**

At 31 December 2008 the Group has negative working capital of USD 999,815 (31 December 2007: USD 719,054) including short-term borrowings of USD 578,433 (31 December 2007: USD 253,733).

At 31 December 2008 the Group had available bank credit lines of USD 367,383 (31 December 2007: USD 330,965).

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

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

In November 2008 an agreement has been reached with the VneshTorgBank (VTB) to provide RR 7,000 million (USD 277,267 at spot foreign exchange rate) in financing to the Group within the framework of the Russian government initiatives aimed at supporting the country's retail industry. The financing will be provided in the form of a revolving credit line available for 1.5 years.

In February 2009 VTB Group has increased its credit lines to the X5 Retail Group N.V. from RUR 7,000 million to RUR 9,000 million, with the additional RUR 2,000 million from the bank's subsidiary VTB North-West.

During the 1st quarter of 2009 the Group has fully repaid its short-term USD borrowings for the amount of USD 200 mln and as of 31 March 2009 has no short term obligations in foreign currency.

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

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

32 OPERATING ENVIRONMENT OF THE GROUP

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 34.01 at 31 March 2009.

International reserves of the Russian Federation decreased from USD 556,813,000 at 30 September 2008 to USD 384,300,000 at 27 February 2009 as reported on the official web site of the Central Bank of the Russian Federation.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price per barrel of Urals oil decreased from USD 91.15 at 29 September 2008 to USD 49.06 at 31 March 2009.

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

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

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

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

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

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The availability of external funding in financial markets 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. Although, as noted in Note 31 the Group management considers that the available credit lines and expected cash flows are sufficient to finance the Group's current operations.

Volatility on country financial markets, increase of costs of debt and equity triggered goodwill impairment (Note 12).

Debtors and suppliers of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed and to supply good for resale correspondently. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably determine the effects on the Group's future 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 development of the Group's business in the current circumstances.

33 CAPITAL RISK MANAGEMENT

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

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

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The fair value of X5 Finance bonds traded on the MICEX is determined based on active market quotations and amounted to USD 261,052 at 31 December 2008 (31 December 2007: 360,936). The carrying value of these bonds amounted to USD 304,986 at 31 December 2008 (31 December 2007: 364,763) (Note 20). The fair value of long-term borrowings amounted to USD 1,210,484. Fair value was calculated by estimating future cash flows in nominal terms and discounting them at appropriate market rate. Market rates used for calculation vary from 12% to 25% depending on the amount and currency of particular loan. The fair value of short-term borrowings was not materially different from their carrying amounts.

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

35 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 31 December 2008, the Group operated 589 stores through rented premises (31 December 2007: 491). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RR and normally calculated as a percentage of turnover. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable rent payments. Substantially all of the lease agreements have an option that enables the Group to cancel the agreement with the mutual concord of the parties involved.

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

35 COMMITMENTS AND CONTINGENCIES (continued)

Commitments under operating leases (continued)

The future minimum lease payments under non-cancellable operating leases of property are as follows (net of VAT):

	31 December 2008	31 December 2007
Not later than 1 year	144,380	99,786
Later than 1 year and not later than 5 years	368,568	276,653
Later than 5 years	310,358	196,867
	823,306	**573,306**

Capital expenditure commitments

At 31 December 2008 the Group contracted for capital expenditure of USD 173,343 (net of VAT), (2007: USD 131,964).

Legal contingencies

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

Taxation environment

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

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

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

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

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

35 COMMITMENTS AND CONTINGENCIES (continued)

Commitments under operating leases (continued)

Taxation environment (continued)

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees and current interpretations published by the authorities in the jurisdictions in which the Group has operations. Furthermore, management regularly assesses the potential financial exposure relating to tax contingencies for which the three years tax inspection right has expired but which, under certain circumstances, may be challenged by the regulatory bodies. From time to time potential exposures and contingencies are identified and at any point in time a number of open matters may exist. Management estimates that possible exposure in relation to profit tax and other non-profit tax risks such as inter-company transactions, VAT and employee related taxes, that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times the additional accrued liabilities and provisions reflected on the balance sheet at that date (and potentially in excess of the Group's profit before tax for the year). This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability. At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 110,619 at 31 December 2008 (31 December 2007: USD 76,708) in these consolidated financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2007	**55,773**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	16,597
Translation movement	4,338
Balance at 31 December 2007	**76,708**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 7)	57,694
Translation movement	(23,783)
Balance at 31 December 2008	**110,619**

36 SUBSEQUENT EVENTS

In February 2009 VTB Group has increased its credit lines to the X5 Retail Group N.V. from RR 7,000 million to RR 9,000 million, with the additional RR 2,000 million from the bank's subsidiary VTB North-West.

During 1st quarter 2009 the Group has fully repaid its short-term USD borrowings for the amount of USD 200 mln and as of 31 March 2008 has no short term obligations in foreign currency.