X5 Retail Group N.V.

International Accounting Standard 34 Condensed Consolidated Interim Financial Statements and Review Report

30 September 2008

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DIRECTORS' RESPONSIBILITY STATEMENT

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

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 September 2008, and the results of its operations, cash flows and changes in shareholders' equity for the nine months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

In preparing the condensed consolidated interim financial statements, 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 condensed consolidated interim financial statements; and
- Preparing the condensed consolidated interim financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

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 condensed consolidated interim financial statements of the Group comply with Accounting Standard 34 "Interim Financial Reporting";
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The condensed consolidated interim financial statements for the nine month period ended 30 September 2008 were approved on 27 November 2008 by:

Lev Khasis
Chief Executive Officer

Evgeny Kornilov
Chief Financial Officer

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Report on Review of Condensed Consolidated Interim Financial Statements

To the Management Board of X5 Retail Group N.V.:

Introduction
We have reviewed the accompanying condensed consolidated balance sheet of X5 Retail Group N.V. as of 30 September 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the nine month period then ended. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
28 November 2008

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	Note	30 September 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	8	3,574,693	1,990,558
Investment property		118,738	129,006
Goodwill	9	3,230,749	2,955,625
Intangible assets	8	502,854	524,246
Prepaid leases	8	90,250	54,846
Investment in associate	6	4,683	-
Other non-current assets		2,477	2,534
Deferred tax assets		68,354	31,621
		7,592,798	5,688,436
Current assets			
Inventories of goods for resale		387,802	325,240
Derivative financial assets	18	6,655	1,500
Loans originated		453	145
Current portion of non-current prepaid lease	8	8,772	5,766
Trade and other accounts receivable		232,524	148,646
Current income tax receivable		72,911	4,628
VAT and other taxes recoverable		279,138	195,752
Cash and cash equivalents	20	224,234	179,496
		1,212,489	861,173
Total assets		**8,805,287**	**6,549,609**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	12	93,721	70,883
Share premium		4,243,405	2,896,355
Cumulative translation reserve		114,704	294,169
Accumulated profit/(deficit)		128,011	(17,960)
Hedging reserve	18	5,890	-
Minority interests	6	-	220
Total equity		**4,585,731**	**3,243,667**
Non-current liabilities			
Long-term borrowings	10	1,561,273	1,464,684
Long-term finance lease payable	11	325	1,280
Deferred tax liabilities		336,402	213,322
Long-term deferred revenue		5,540	3,221
Share-based payments liability	15	25,411	43,208
		1,928,951	1,725,715
Current liabilities			
Trade accounts payable		1,067,849	971,570
Short-term borrowings	10	705,983	253,733
Share-based payments liability	15	14,885	2,389
Short-term finance lease payables	11	2,113	2,280
Interest accrued		12,248	2,763
Short-term deferred revenue		5,607	4,943
Current income tax payable		8,391	33,303
Provisions and other liabilities		473,529	309,246
		2,290,605	1,580,227
Total liabilities		**4,219,556**	**3,305,942**
Total equity and liabilities		**8,805,287**	**6,549,609**

Lev Khasis
Chief Executive Officer
27 November 2008

Evgeny Kornilov
Chief Financial Officer
27 November 2008

The accompanying Notes on pages 6 to 27 are an integral part of these condensed consolidated interim financial statements.

	Note	Nine months ended 30 September 2008	Nine months ended 30 September 2007
Revenue		5,958,825	3,617,741
Cost of sales		(4,421,122)	(2,671,468)
Gross profit		**1,537,703**	**946,272**
Selling, general and administrative expenses		(1,226,206)	(799,519)
Lease/sublease and other income		69,600	48,046
Operating profit		**381,097**	**194,800**
Finance costs	14	(109,465)	(105,519)
Finance income	14	7,539	5,215
Net foreign exchange (loss)/gain		(40,011)	11,821
Share of profit of associates		-	417
Profit before tax		**239,160**	**106,734**
Income tax expense	16	(93,189)	(52,530)
Profit for the period		**145,971**	**54,205**
Attributable to:			
Equity holders of the parent		145,971	54,205
Profit for the period		**145,971**	**54,205**
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)		**2.33**	**0.95**
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)		**2.33**	**0.94**

Lev Khasis
Chief Executive Officer
27 November 2008

Evgeny Kornilov
Chief Financial Officer
27 November 2008

	Note	Nine months ended 30 September 2008	Nine months ended 30 September 2007
Profit before tax		**239,160**	**106,734**
Adjustments for:			
- Depreciation and amortisation		160,867	117,018
- Gain on disposal of property, plant and equipment		(1,023)	(285)
- Finance costs, net		101,927	100,304
- Impairment of trade and other accounts receivable		7,107	3,567
- Share-based payments expense	15	(11)	35,592
- Amortisation of deferred expenses		6,654	2,954
- Net foreign exchange (gain) / loss		40,011	(11,821)
Net cash from operating activities before changes in working capital		**554,692**	**354,063**
Decrease / (increase) in trade and other accounts receivable		49,523	(40,512)
Decrease in inventories		10,233	1,292
(Decrease) / increase in trade accounts payable		(65,304)	21,201
Increase / (Decrease) in other accounts payable and deferred revenue		26,686	(88,295)
Net cash generated from operations		**575,830**	**247,749**
Interest paid		(98,480)	(72,108)
Interest received		7,875	7,422
Income tax paid		(225,428)	(87,355)
Cash flows from operating activities - net		**259,797**	**95,708**
Cash flows from investing activities:			
- purchase of property, plant and equipment	8	(784,626)	(480,120)
- proceeds from sale of property, plant and equipment		4,824	8,212
- non-current prepaid lease		(48,137)	(9,528)
- investments in subsidiaries and associate	6	(690,048)	1,717
- short-term loans issued		(328)	(21,687)
- acquisition of investments available for sale		-	(15,223)
- proceeds from sale of investments available for sale		-	9,300
- purchase of intangible assets	8	(5,931)	(1,495)
Net cash used in investing activities		**(1,524,246)**	**(508,824)**
Cash flows from financing activities:			
- proceeds from short-term loans		1,581,383	809,759
- repayment of short-term loans		(1,404,033)	(886,785)
- proceeds from long-term loans		-	547,109
- repayment of long-term loans		-	(102,709)
- proceeds from issue of share capital	12	1,007,592	-
- proceeds from sale of treasury shares	12	144,217	-
- acquisition of treasury shares		(8,876)	-
- principal payments on finance lease obligations		(1,954)	(3,142)
Net cash generated from financing activities		**1,318,329**	**364,232**
Effect of exchange rate changes on cash and cash equivalents		(9,142)	7,453
Net increase in cash and cash equivalents		**44,738**	**(41,431)**
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		179,496	167,988
Net increase in cash and cash equivalents		44,738	(41,431)
Cash and cash equivalents at the end of the period		**224,234**	**126,557**

Lev Khasis
Chief Executive Officer
27 November 2008

Evgeny Kornilov
Chief Financial Officer
27 November 2008

The accompanying Notes on pages 6 to 27 are an integral part of these condensed consolidated interim financial statements.

		Attributable to the shareholders of the Company								
	Note	Number of shares	Share capital	Share premium	Hedging reserve	Cumulative translation reserve	Retained earnings/ (Accumulated deficit)	Total shareholders' equity	Minority interest	Total
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		-	-	-	-	168,510	-	168,510	-	168,510
Profit for the period		-	-	-	-	-	54,204	54,204	-	54,204
Total recognised income for the period		-	-	-	-	168,510	54,204	222,714	-	222,714
Acquisition of subsidiaries		-	-	-	-	-	-	-	220	220
Balance as at 30 September 2007		**53,217,760**	**70,936**	**2,901,350**	-	**247,969**	**(107,504)**	**3,112,751**	**220**	**3,112,971**
Translation movement		-	-	-	-	46,200	-	46,200	-	46,200
Profit for the period		-	-	-	-	-	89,544	89,544	-	89,544
Total recognised income for the period		-	-	-	-	46,200	89,544	135,744	-	135,744
Acquisition of treasury shares		(40,000)	(53)	(4,995)	-	-	-	(5,048)	-	(5,048)
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		-	-	-	-	(179,465)	-	(179,465)	-	(179,465)
Profit for the period		-	-	-	-	-	145,971	145,971	-	145,971
Total recognised income for the period		-	-	-	-	(179,465)	145,971	(33,494)	-	(33,494)
Issue of shares	12	12,026,675	18,979	984,331	-	-	-	1,003,310	-	1,003,310
Sale of treasury shares	12	949,778	1,268	142,949	-	-	-	144,217	-	144,217
Acquisition of treasury shares	12	(79,271)	(123)	(8,753)	-	-	-	(8,876)	-	(8,876)
Acquisition of subsidiaries	6	1,746,505	2,714	228,523	-	-	-	231,237	-	231,237
Acquisition of Minority interest	6	-	-	-	-	-	-	-	(220)	(220)
Hedging instruments	18	-	-	-	5,890	-	-	5,890	-	5,890
Balance as at 30 September 2008		**67,821,447**	**93,721**	**4,243,405**	**5,890**	**114,704**	**128,011**	**4,585,731**	-	**4,585,731**

Lev Khasis
Chief Executive Officer
27 November 2008

Evgeny Kornilov
Chief Financial Officer
27 November 2008

The accompanying Notes on pages 6 to 27 are an integral part of these condensed consolidated interim financial statements.

1 PRINCIPLE ACTIVITIES AND THE GROUP STRUCTURE

These condensed consolidated interim financial statements are for the economic entity comprising X5 Retail Group N.V. (the "Company") and its subsidiaries (the "Group").

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

The main activity of the Group is the development and operation of grocery retail stores. As at 30 September 2008 the Group operated a retail chain of 1,027 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel" in major population centers in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Krasnodar, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, Ukraine (31 December 2007: 868 stores under the brand names "Pyaterochka" and "Perekrestok"). X5's multiformat store network comprises 794 soft discount stores under "Pyaterochka" brand, 191 supermarkets under "Perekrestok" brand and 42 hypermarkets under "Karusel" and "Perekrestok" brands (31 December 2007: 674 soft discount stores under "Pyaterochka" brand, 179 supermarkets under "Perekrestok" brand and 15 hypermarkets under "Perekrestok" brand).

In addition, as at 30 September 2008 the Group's franchisees operated 684 stores (31 December 2007: 688 stores) in Russia and neighbouring countries.

The Group is a member of the Alfa Group Consortium. As at 30 September 2008 the Group's immediate principal shareholders were Luckyworth Limited and Cesaro Holdings Limited owning 20.35% and 21.64% of total issued shares, respectively. As at 30 September 2008 the Company's shares are listed on the London Stock Exchange in 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 deal (Note 12). As at 30 September 2008 the ultimate parent company of the Group is CTF Holdings Ltd. ("CTF"), a company registered at Suite 2, 4 Irish Place, Gibraltar. 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 condensed consolidated interim financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

These condensed consolidated interim financial statements for the nine months ended 30 September 2008 have been prepared in accordance with IAS 34, 'Interim Financial Reporting'. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2007 which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2007.

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

Certain reclassifications have been made to prior year balances in the condensed 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 2.3).

2.2 Foreign currency translation and transactions

(a) Functional and presentation currency

Functional currency. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currencies of the Group's entities are the national currency of the Russian Federation, Russian 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currency translation and transactions (continued)

(a) Functional and presentation currency (continued)

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

(b) Transactions and balances

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

At 30 September 2008, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RR 25.2464 (31 December 2007: USD 1 = RR 24.5462). Average rate for the nine months ended 30 September 2008 was USD 1 = RR 24.0418 (nine months ended 30 September 2007: USD 1 = RR 25.8905).

At 30 September 2008, the official rate of exchange, as determined by the Central Bank of Ukraine, was USD 1 = UAH 4.8610 (31 December 2007: USD 1 = UAH 5.0500). Average rate for the nine months ended 30 September 2008 was USD 1 = UAH 4.9531 (nine months ended 2007: USD 1 = UAH 5.0500).

2.3 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 "Strana Gerkulesia" brand.

Primary valuation of assets and liabilities of acquired companies was performed on provisional basis. During the reporting period provisional values were updated based on 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 17,290 (Note 6).

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 6).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Strana Gerkulesia (continued)

	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	(2,020)	(1,682)
Provisions for tax contingencies	(8,714)	(7,677)
Other liabilities	(1,395)	(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:

Property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment (Note 8). 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 no such indications exist and therefore no assets impairment testing was performed. 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.

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

Provision for impairment of trade and other receivables. The Group determines an allowance for doubtful accounts receivable at the end of the reporting period. In estimating an allowance for uncollectible accounts receivable the Group takes into account the historical collectibility 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.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 20).

Classification of VAT. The terms of recovery of VAT depends on the registration of certain property, plant and equipment. The Group believes that VAT will be recovered within 12 months from the reporting date and therefore classified VAT recoverable as current.

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

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.

Fair value of brand and private labels. The Group's 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.

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have 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 9.

Provisional fair value of Karusel net assets. The Group acquired Karusel during the reporting period (Note 6) 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 in regard to other subsidiaries.

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 services received is measured based on the Black-Scholes model. Major assumptions are summarized in Note 15.

4 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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:

- IFRIC 11, IFRS 2 — Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 2008);
- 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 1 January 2008).

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

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 and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements.

Puttable financial instruments and obligations arising on liquidation — IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. 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 revised IAS 23 was issued in March 2007. 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. Management is currently assessing what impact the standard will have on the consolidated financial statements.

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

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 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 amendment to affect 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 on the same basis as US GAAP (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, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. 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. Management is currently assessing the impact of the amended standard 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 affect its financial statements.

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after 1 July 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);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008);
- 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;

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

- 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, with earlier application permitted);

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 issued in May 2008 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 consolidated financial statements.

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

5 SEGMENT REPORTING

The Group has the following business segments:

	Retail trade	Other	Group
Nine months ended 30 September 2008			
Sales – external	5,933,512	25,313	5,958,825
Total revenue	5,933,512	25,313	5,958,825
Segment result	376,863	19,576	396,439
Unallocated expenses	-	-	(15,342)
Operating profit	-	-	**381,097**
Finance costs, net	-	-	(101,926)
Unallocated expenses	-	-	(40,011)
Profit before income tax	-	-	**239,160**
Income tax expense	-	-	(93,189)
Profit for the period	-	-	**145,971**

	Retail trade	Other	Group
Nine months ended 30 September 2007			
Sales – external	3,599,568	18,173	3,617,741
Total revenue	**3,599,568**	**18,173**	**3,617,741**
Segment result	250,579	15,410	265,990
Unallocated expenses	-	-	(71,190)
Operating profit	-	-	**194,800**
Finance costs, net	-	-	(100,304)
Share of result of associates	-	-	417
Unallocated expenses	-	-	11,821
Profit before income tax	-	-	**106,734**
Income tax expense	-	-	(52,530)
Profit for the period	-	-	**54,205**

6 ACQUISITION OF SUBSIDIARIES, ASSOCIATE AND MINORITY INTEREST

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"), persuant 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. One hypermarket is currently operating in a test mode.

In the nine months ended 30 September 2008 the acquired business of Karusel contributed revenue of USD 175,281 and a net loss of USD 7,003 from the date of acquisition. If the acquisition of Karusel had occurred on 1 January 2008, the Group's revenue for the nine months period ended 30 September 2008 would have been USD 6,518,484 and the Group's profit for the nine months period ended 30 September 2008 would have been USD 138,158. Estimates of contribution of revenue and profit to the Group are based on unaudited information derived from previous management accounts of Karusel.

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	-
Trade and other accounts receivable	248,849	248,604
Intangible assets (Note 8)	-	15,414
Property, plant and equipment (Note 8)	492,235	1,021,207
Prepaid lease	9	622
Deferred tax assets	6,994	4,119
Other assets	582	-
Short-term borrowings	(263,559)	(263,559)
Trade and other accounts payable	(258,384)	(263,549)
Provisions and liabilities for tax uncertainties (Note 20)	-	(40,000)
Long-term borrowings	(150,919)	(150,919)
Deferred tax liability	(8,467)	(136,816)
Net assets acquired	196,160	545,099
Goodwill (Note 9)		367,278
Total acquisition cost		**912,377**
Net cash outflow arising from the acquisition		**649,813**

* 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 653,653, deferred consideration of USD 27,488, part of which in the amount of USD 21,860 was paid during the nine months ended 30 September 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.

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).

6 ACQUISITION OF SUBSIDIARIES, ASSOCIATE AND MINORITY INTEREST (continued)

Chelyabinsk and Yekaterinburg (continued)

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 9).

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 nine months period ended 30 September 2008 the acquired business of Kama contributed revenue of USD 34,968 and a net loss of USD 2,088 from the date of acquisition. If the acquisition of Kama had occurred on 1 January 2008, the Group's revenue for the nine months period ended 30 September 2008 would have been USD 5,974,226 and the Group's profit for the nine months period ended 30 September 2008 would have been USD 145,310. 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.

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	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 8)	-	7,446
Property, plant and equipment (Note 8)	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)	(8,832)
Provisions and liabilities for tax uncertainties (Note 20)	-	(634)
Long-term borrowings	(2,511)	(3,293)
Deferred tax liability	-	(1,768)
Net assets acquired	(1,224)	5,036
Goodwill (Note 9)		4,092
Total acquisition cost		**9,128**
Net cash outflow arising from the acquisition		**8,664**

* 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 8,885 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.

6 ACQUISITION OF SUBSIDIARIES, ASSOCIATE AND MINORITY INTEREST (continued)

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.

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	992	992
Inventory of goods for resale	7,777	7,241
Trade and other accounts receivable	9,129	8,993
Intangible assets (Note 8)	-	25,122
Property, plant and equipment (Note 8)	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 20)	-	(7,883)
Deferred tax liability	-	(9,648)
Net assets acquired	19,509	41,338
Goodwill (Note 9)		78,101
Total acquisition cost		**119,439**
Net cash outflow arising from the acquisition at the date of acquisition		**93,026**

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

The Group assigned provisional values to net assets acquired. During the nine months ended 30 September 2008 the provisional values were updated as described in the note 2.3. The Group will finalise the purchase price allocation within 12 month 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 USD 12,504 was paid during the nine months ended 30 September 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, of which 26 are operational and three are scheduled for opening in 2008. 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.

6 ACQUISITION OF SUBSIDIARIES, ASSOCIATE AND MINORITY INTEREST (continued)

Strana Gerkulesia (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	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 8)	-	3,682
Property, plant and equipment (Note 8)	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 20)	-	(8,714)
Long-term borrowings	-	(100)
Deferred tax liability	-	(5,650)
Net assets acquired	23,837	16,248
Goodwill (Note 9)		51,926
Total acquisition cost		**68,174**
Net cash outflow arising from the acquisition		**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 nine months ended 30 September 2008 the provisional values were updated as described in the note 2.3. The Group will finalise 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 3,234 was paid during the nine months 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. Details of assets and liabilities acquired are as follows:

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.

6 ACQUISITION OF SUBSIDIARIES, ASSOCIATE AND MINORITY INTEREST (continued)

Other acquisitions (continued)

	Acquiree's carrying amount, Russian GAAP*	Provisional 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	77,524
Investment property	-	43,314
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		**56,843**

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

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 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 April 2008 the Group contributed to 40% share capital of Retail Express Ltd. in the amount of USD 5,000.

At 30 September 2008 summarised financial information of Retail Express Limited, including total assets, liabilities, revenues and profit or loss, were as follows:

	30 September 2008
Net assets	11,708
Profit	-

As at 30 September 2008 the Group considers that the fair value of the investment approximates its carrying amount.

7 RELATED PARTY TRANSACTIONS

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

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 30 September 2008 are provided below. The ultimate controlling party is disclosed in Note 1.

7 RELATED PARTY TRANSACTIONS (continued)

Alfa Group

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

	Relationship	Nine months ended 30 September 2008	Nine months ended 30 September 2007
CTF Holdings Ltd.	Ultimate parent company		
Management services received		1,389	1,078
OAO "Alfa-Bank"	Under common control		
Interest expense on loans received		12,007	1,685
Bank charges		80	398
Rent revenue		134	162
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services rendered by VimpelCom to the Group		346	465
Commission for mobile phone payments processing rendered by the Group to VimpelCom		553	402
Golden Telecom	Under significant influence of CTF Holdings Ltd.		
Communication services received		2,283	1,475

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

	30 September 2008	31 December 2007
Cash and cash equivalents		
OAO "Alfa-Bank"	65,621	10,684
Short-term loans payable		
OAO "Alfa-Bank"	161,726	2,649
Receivable from related party		
VimpelCom	250	102
Golden Telecom	810	159
OAO "Alfa-Bank"	231	225
Other accounts payable		
VimpelCom	593	18
OAO "Alfa-Bank"	366	-
Golden Telecom	118	-

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of USD 475,315 (31 December 2007: USD 150,000). At 30 September 2008 the Group's liability under this credit line amounted to USD 161,726 with interest rates 13.64% - 15.65% p.a. (31 December 2007: USD 2,649) and available credit line of USD 313,589 (31 December 2007: USD 147,351) (Note 18).

7 RELATED PARTY TRANSACTIONS (continued)

Other related parties

OOO "Media 5" and OOO "Media 5M"

The following transactions were carried out with OOO "Media 5" and OOO "Media 5M" controlled by management of the Group:

	Nine months ended 30 September 2008	Nine months ended 30 September 2007
Interest income	-	3
Advertising services provided by the Group	-	235

The consolidated financial statements include the following balances with OOO "Media 5" and OOO "Media 5M":

	30 September 2008	31 December 2007
Loans and receivables	-	52

The carrying value of loans and receivables approximates their fair value. Financial assets are not collateralised. None of the financial assets are either past due or impaired. The Group assesses credit quality of the investments as high.

OOO "Makromir"

The following transactions were carried out with OOO "Makromir" which is under control of the minority shareholder of the Group:

	Nine months ended 30 September 2008	Nine months ended 30 September 2007
Utilities	324	63
Rental expenses carried by the Group	1,296	712
Construction services provided to the Group	38	-
Other operating income	67	-

The consolidated financial statements include the following balances with OOO "Makromir":

	30 September 2008	31 December 2007
Advances given in relation to development project	10,248	742
Participation in investment project of the Group	583	-

The carrying value of receivables approximates their fair value. Financial assets are not collateralised. None of the financial assets are either past due or impaired. The Group assesses credit quality of the investments as high.

OOO "EuroConsult"

The following transactions were carried out with OOO "EuroConsult" which is under control of the minority shareholder of the Group:

	Nine months ended 30 September 2008	Nine months ended 30 September 2007
Consulting expenses provided to the Group	27	5

The consolidated financial statements include the following balances with OOO "EuroConsult":

	30 September 2008	31 December 2007
Accounts receivable	24	21
Accounts payable	1	-

7 RELATED PARTY TRANSACTIONS (continued)

Key executive management personnel

Key management personnel and members of the Supervisory Board of the Group receive compensation in the form of short-term employee benefits and share-based payments (Note 15). For the nine months ended 30 September 2008 key management personnel and members of the Supervisory Board of the Group were entitled to total short-term compensation of USD 5,097 (nine months ended 30 September 2007: USD 6,630), including bonuses of USD 2,096 (nine months ended 30 September 2007: USD 3,546). The compensation is made up of annual remuneration and a performance bonus depending on operating results. As at 30 September 2008 there were 2,814,375 GDRs under ESOP outstanding to key management personnel and members of the Supervisory Board of the Group (31 December 2007: 1,950,000 GDRs). The total intrinsic value of vested share options amounted to USD 4,204 as at 30 September 2008 (31 December 2007: USD 19,795).

8 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2008		2007	
	Property, plant and equipment	**Intangible assets**	**Property, plant and equipment**	**Intangible assets**
Cost				
Balance as at 1 January	2,238,686	581,674	1,400,470	513,415
Additions	828,005	4,612	486,846	909
Assets from acquisitions	1,031,876	22,860	11,362	-
Disposals	(816)	(2)	(8,648)	-
Translation movement	(167,015)	(17,872)	87,016	28,469
Balance as at 30 September	**3,930,736**	**591,272**	**1,977,046**	**542,793**
Accumulated Depreciation				
Balance as at 1 January	(248,128)	(57,428)	(134,637)	(21,156)
Depreciation charge	(121,240)	(35,551)	(86,811)	(29,478)
Disposals	788	-	3,084	-
Translation movement	12,537	4,560	(9,943)	(2,033)
Balance as at 30 September	**(356,043)**	**(88,419)**	**(228,307)**	**(52,667)**
Net Book Value				
Balance as at 1 January	**1,990,558**	**524,246**	**1,265,833**	**492,259**
Balance as at 30 September	**3,574,693**	**502,853**	**1,748,739**	**490,126**

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 20). Certain land leases are prepaid for the 49 year term. Such prepayments are presented as non-current prepaid leases in the balance sheet and amount to USD 99,022 (31 December 2007: USD 60,612).

The Group leases certain assets under finance leases (Note 11). At 30 September 2008 and 31 December 2007 the net book value of the property, plant and equipment held under finance lease arrangements was:

	30 September 2008	**31 December 2007**
Gross book value:		
Land and buildings	2,290	-
Vehicles	3,020	3,106
Machinery and equipment	228	-
Refrigerating equipment	8,683	8,931
	14,221	12,037
Accumulated depreciation:		
Land and buildings	(46)	-
Vehicles	(1,346)	(608)
Machinery and equipment	(48)	-
Refrigerating equipment	(3,613)	(2,842)
	(5,053)	(3,450)
Net book value of property, plant and equipment obtained under finance lease arrangements	**9,168**	**8,587**

Refer to Note 10 for property, plant and equipment pledged as collateral for borrowings.

9 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries at 30 September 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 6)	382,718	7,697
Translation to presentation currency	(107,594)	143,662
Gross book value at 30 September	3,230,749	2,780,405
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	-	-
Accumulated impairment losses at 30 September	-	-
Carrying amount at 30 September	**3,230,749**	**2,780,405**
Carrying amount at 1 January	**2,955,625**	**2,629,046**

Goodwill Impairment Test

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

The CGU to which goodwill has been allocated is tested for impairment annually or more frequently if there are indications that the CGU might be impaired. Goodwill is tested for impairment at the CGU level by comparing carrying values of CGU assets including allocated goodwill to their recoverable amounts. The recoverable amount of the CGU is determined as the higher of fair value less cost to sell or value in use.

A significant drop of market price of the Company's shares which happened after the reporting date can be considered as an indicator for impairment of goodwill. The group will conduct impairment tests of goodwill during the fourth quarter of 2008 and at the year-end.

10 BORROWINGS

		30 September 2008			31 December 2007		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total	Current During 1 year	Non-current In 1 to 3 years	Total
USD Syndicated loan	Libor+2.25%	-	1,086,316	1,086,316	-	1,083,226	1,083,226
USD Loans	7,8-11,5%	223,874	-	223,874	123,800	1,422	109,231
RR Bonds	7,6% - 11,45%	89,621	362,038	451,659	122	380,024	380,146
RR Loans	4%-16,06%	392,488	112,919	505,407	129,811	12	145,814
Total borrowings		**705,983**	**1,561,273**	**2,267,256**	**253,733**	**1,464,684**	**1,718,417**

The Group has pledged as collateral for the syndicated loan 100% of voting shares in its subsidiaries, including OOO "Agrotorg", OOO "Agroaspekt", Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO "TH "Perekrestok", OOO "Perekrestok-2000". The proceeds of the loan were used to refinance the bridge facility in the amount of USD 1,000,000 and for general corporate purposes. The Group also has pledged as collateral for Karusel loans 100% shares of OOO "Autoport", OOO "Stalebeton", OOO "Ukatan", OOO "Krasnoborskoe", OOO "Emitel", OOO "Matrix", OOO "Kollontai", OOO "Dal'nevostochny", OOO"Kaizer-Ural", equipment of USD 2,364 and land and buildings of USD 343,914.

In July 2007 the Group placed a RR 9,000 million (USD 354,856) 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 118,829) bond was added to the Group borrowings. Bonds have been placed in September 2006 with the interest rate at 9.75% per annum 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 100% of the outstanding bonds from the holders. Consequently, the Group entered into a financing arrangement, whereby the bonds were placed with a bank and the Group repurchased the major part of them during the fourth quarter 2008. Bond liabilities were RR 2,263 million (USD 89,621) as at 30 September 2008.

10 BORROWINGS (continued)

The Group announced that on 30 July 2008 its 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. The form of placement will be open subscription.

All borrowings at 30 September 2008 are shown net of related transaction costs of USD 13,733 which are amortised over the term of loans using the effective interest method (31 December 2007: USD 18,884).

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.

11 OBLIGATIONS UNDER FINANCE LEASES

The Group leases certain buildings, machinery equipment, refrigerating equipment and vehicles under finance lease terms. The agreements expire in 2008-2010 and assume a transfer of ownership for the leased assets to the Group at the end of the lease term. The effective borrowing rate on lease agreements as at 30 September 2008 varies from 4.4% to 12.7% in EUR, is 23.0% per annum on USD agreements and varies from 9.0%to 31.0% per annum on RR agreements. The fair value of the finance lease liability as at 30 September 2008 approximates its carrying amount.

Lease obligations of the Group as at 30 September 2008 and 31 December 2007 consisted of the following:

	Minimum lease payments		**Present value of minimum lease payments**	
	30 September 2008	**31 December 2007**	**30 September 2008**	**31 December 2007**
Amounts payable :				
Within one year	2,417	2,788	2,113	2,280
In the second to fifth years inclusive	372	1,454	325	1,280
	2,789	4,242	2,438	3,560
Less: future finance charges	(351)	(682)	N/A	N/A
Present value of minimum lease payments	**2,438**	**3,560**	**2,438**	**3,560**

12 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 1,003,310 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).

As part of the acquisition of Karusel (Note 6) 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.

In order to hedge the Group's obligations under its Employee Stock Option Plan Group's wholly owned subsidiary Perekrestok Holdings Limited purchased an aggregate amount of 267,482 GDRs representing shares in the capital of its parent company X5, at an average market price of USD 29.35 per GDR during the period of time from 11 July through 29 July 2008 and an aggregate amount of 49,600 GDRs at an average market price of USD 20.657 per GDR during the period of time from 9 September through 11 September 2008. During the nine months ended 30 September 2008 30,000 options were exercised. As at 30 September 2008 the Group had 71,771 ordinary shares held as treasury stock.

As at 30 September 2008 the Group had 190,000,000 authorized ordinary shares of which 67,821,447 ordinary shares are outstanding.

13 EXPENSES BY NATURE

Among other expenses charged for the nine months ended 30 September 2008 are the following:

- Operating lease expenses, which include USD 177,602 of minimum lease payments (nine months ended 30 September 2007: USD 126,510) and contingent rents of USD 15,038 (nine months ended 30 September 2007: USD 6,369).

- Provision for impairment of trade and other receivables amounted to USD 7,107 during the nine months ended 30 September 2008 (nine months ended 30 September 2007: USD 3,567).

14 FINANCE INCOME AND COSTS

	Nine months ended 30 September 2008	Nine months ended 30 September 2007
Interest expense	103,915	102,662
Interest income	(7,539)	(5,170)
Other finance costs, net	5,550	2,857
	101,926	**100,349**

15 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 issued over the period to 19 May 2009. The vesting requirement of the program is the continued employment of participants.

The first and second tranches were approved for granting at 15 June 2007. The first tranche vested immediately and covered the period of service of option holders from 1 January 2007 to 15 June 2007. The second tranche vested on 18 May 2008. The 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 April 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 at any time over the period from vesting till 18 November 2012. However as noted below management considers that the participants will not exercise their options within the next 12 months.

In total, during the nine months ended 30 September 2008 the Group recognised income related to the ESOP in the amount of USD 11 (expenses during the nine months ended 30 September 2007: USD 35,592). At 30 September 2008 the share-based payments liability amounted to USD 40,296 (31 December 2007: USD 45,597). The equity component was effectively zero at 30 September 2008 (31 December 2007: zero).

Details of the share options outstanding during the nine months ended 30 September 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	3,844,382	33.4	
Exercised during the period	(468,000)	23.6	35.0
Cancelled during the period	(260,500)	28.6	
Outstanding at the end of the period	**6,698,882**	**29.6**	
Exercisable at 30 September 2008	2,854,500	24.3	

The total intrinsic value of vested share options amounted to USD 6,749 as at 30 September 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 estimate of the fair value of the services received is measured based on the Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options, being 18 November 2012, due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 30 September 2008 were as follows:

15 SHARE-BASED PAYMENTS (continued)

GDR price average for 3rd quarter 2008	26.70
Expected volatility	41.30%
Risk-free interest rate	4.43%
Dividend yield	0%

16 INCOME TAX

	Nine months ended 30 September 2008	Nine months ended 30 September 2007
Current income tax charge	131,020	64,648
Deferred income tax (benefit) / expense	(37,831)	(12,119)
Income tax charge for the period	**93,189**	**52,530**

17 SEASONALITY

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

- Volume of repair and maintenance work increases in the May-September period as the ambient temperature is conductive to this activity. In addition, the lower level of customer activity enables the Group to minimize missed profits;

- Utility expenses are normally higher during winter period due to increased electricity and heating service consumption.

18 FINANCIAL RISKS MANAGEMENT

Currency risk

The Group is exposed to foreign exchange risk arising from currency exposure with respect to the US Dollar borrowings. From operational perspective the Group does not have any substantial currency exposures due to the nature of its operations being all revenues and expenses fixed in the local currency (RR). All other transactions in the foreign currency except for financing arrangements are insignificant.

The Group has substantial amount of foreign currency denominated long-term borrowings, and is thus exposed to foreign exchange risk (Note 10). Therefore the Group's risk management policy is primarily to hedge anticipated cash outflows associated with borrowings in US Dollar on transactional basis. The Group used foreign exchange collars with leading banking institutions to hedge currency risks associated with the syndicated loan (Note 10). The Group does not hedge general translational exposures, thus there are no outstanding FX hedging instruments as at 30 September 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).

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 where possible. 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 the USD denominated syndicated loan. The effect of the swap on the 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 10). The Group regarded the interest rate swap initiated in February 2008 as a hedging instrument and applied hedge accounting. The fair value of the interest rate swap of USD 5,890 was recorded through Equity.

In July 2007 the Group issued RR denominated bonds for the amount of RR 9,000 million that are at fixed rate of 7.6% (Note 10). The bonds could be redeemed at par in 3 years time.

18 FINANCIAL RISKS MANAGEMENT (continued)

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 due to routine nature of settlements with suppliers. Liquidity risk is managed by the Group Treasury.

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

30 September 2008

	During 1 year	In 1 to 3 years
Borrowings	735,605	1,799,343
Trade payables	1,067,849	-
Gross finance lease liabilities	2,113	325
Other finance liabilities	239,987	-
	2,045,554	**1,799,668**

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 30 September 2008 the Group has negative working capital of USD 1,078,116 (31 December 2007: USD 719,054) including short-term borrowings of USD 705,983 (31 December 2007: USD 253,733).

At 30 September 2008 the Group had available bank credit lines of USD 334,028 (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. Short term part of the liquidity risk is seasonal, with the highest peak in 1st quarter and strong cash generation in 4th Q, therefore the Group negotiates the maturity of short term credit lines till December, when the free cash flow allows to repay 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 discretional. 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.

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.

Recent volatility in global and country financial markets

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

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

18 FINANCIAL RISKS MANAGEMENT (continued)

Recent volatility in global and country financial markets (continued)

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

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

19 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, judgment 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 301,588 at 30 September 2008 (31 December 2007: 360,936). The carrying value of these bonds amounted to USD 354,856 at 30 September 2008 (31 December 2007: 364,763) (Note 10).

The fair value of Karusel Finance bonds traded on the MICEX is determined based on active market quotations and amounted to USD 89,504 at 30 September 2008. The carrying value of these bonds amounted to USD 89,621 at 30 September 2008.

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.

20 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 30 September 2008, the Group operated 544 stores through rented premises (31 December 2007: 491 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts and denominated in USD. 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 fees. Substantially all of the lease agreements have an option that enables the Group to cancel them with the mutual agreement concord of the parties involved.

20 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):

	30 September 2008	31 December 2007
During 1 year	141,370	99,786
In 2 to 5 years	381,300	276,653
Thereafter	252,542	196,867
	775,213	**573,306**

Capital expenditure commitments

At 30 September 2008 the Group contracted for capital expenditure of USD 270,137 (net of VAT) (31 December 2007: USD 131,964).

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.

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 period). This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability. At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 112,925 at 30 September 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:

20 COMMITMENTS AND CONTINGENCIES (continued)

Taxation environment (continued)

Balance at 1 January 2007	**55,773**
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 6)	16,597
Translation movement	4,338
Balance at 31 December 2007	**76,708**
Increases due to acquisitions during the period recorded as part of the purchase price allocation (Note 6)	40,634
Translation movement	(4,417)
Balance at 30 September 2008	**112,925**

21 SUBSEQUENT EVENTS

In November 2008 an agreement has been reached with Vneshtorgbank (VTB) to provide RR 7,000 million (USD 277,267) in financing to X5 Retail 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 for a total amount of RR 7,000 million open for 1.5 years.

In October and November 2008 the Group repurchased Karusel Finance bonds except for minor part of RR 13 million (USD 515).