

X5 Retail Group

**Condensed Consolidated Interim
Financial Statements and
Review Report**

30 September 2010

Provided under IAS 34 as adopted by the EU

PricewaterhouseCoopers
initialled for identification purposes only

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

Review report

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements for the 9-month period ended 30 September 2010, of X5 Retail Group N.V., Amsterdam, which comprises the condensed consolidated interim statement of financial position as at 30 September 2010, the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim statement of cash flows and the selected explanatory notes for the 9-month period then ended. Management of the company is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 September 2010 are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union.

Amsterdam, 25 November 2010
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA



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DIRECTORS' RESPONSIBILITY STATEMENT

This report contains the financial report of X5 Retail Group N.V. ("the Company") for the nine months ended 30 September 2010 and consists of the responsibility statement by the Company's Management Board (the "Management Board") and the condensed consolidated nine months financial statements.

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

The Management Board is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the financial position of the Group at 30 September 2010, and the results of its operations, cash flows and changes in shareholders' equity for the nine months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

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

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

The Management Board is also responsible for:

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

Lev Khasis
Chief Executive Officer
25 November 2010

Anton Volyanskiy
Interim Chief Financial Officer
25 November 2010



X5 Retail Group
Condensed Consolidated Interim Statement of Financial Position at 30 September 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	30 September 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	3,023,411	2,995,329
Investment property		130,344	133,425
Goodwill	8	821,297	767,523
Intangible assets	7	481,777	496,111
Prepaid leases	7	83,048	84,805
Investment in associates		-	5,609
Other non-current assets		1,470	1,304
Deferred tax assets		171,640	151,786
		4,712,987	4,635,892
Current assets			
Inventories of goods for resale		612,193	612,722
Loans originated		1,849	2,848
Current portion of non-current prepaid lease	7	14,174	13,705
Trade and other accounts receivable		273,408	309,571
Current income tax receivable		44,485	18,663
VAT and other taxes recoverable		183,830	174,762
Cash and cash equivalents		91,754	411,681
		1,221,693	1,543,952
TOTAL ASSETS		5,934,680	6,179,844
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		93,712	93,712
Share premium		2,049,144	2,049,144
Cumulative translation reserve		(569,897)	(559,576)
Accumulated profit		383,237	199,292
Hedging reserve		(1,771)	(10,108)
Employee stock plan	13	2,285	-
Non-controlling interest	5	1,337	-
Total equity		1,958,047	1,772,464
Non-current liabilities			
Long-term borrowings	9	1,302,313	287,378
Long-term finance lease payable		3,125	4,586
Deferred tax liabilities		224,136	207,689
Long-term deferred revenue		652	1,839
Share-based payments liability	13	25,421	25,986
Other non-current liabilities		1,301	-
		1,556,948	527,478
Current liabilities			
Trade accounts payable		1,052,834	1,556,325
Short-term borrowings	9	662,978	1,656,622
Share-based payments liability	13	65,190	59,559
Derivative financial liabilities		1,771	10,108
Short-term finance lease payables		1,650	1,950
Interest accrued		22,512	8,863
Short-term deferred revenue		11,940	18,979
Current income tax payable		45,825	33,790
Provisions and other liabilities		554,985	533,706
		2,419,685	3,879,902
Total liabilities		3,976,633	4,407,380
TOTAL EQUITY AND LIABILITIES		5,934,680	6,179,844

Lev Khasis
Chief Executive Officer
25 November 2010

Anton Volyanskiy
Interim Chief Financial Officer
25 November 2010

The accompanying Notes on pages 6 to 22 are an integral part of these condensed consolidated interim financial statements.

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X5 Retail Group
Condensed Consolidated Interim Income Statement
for the nine months ended 30 September 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Revenue		7,797,684	6,081,239
Cost of sales		(5,935,879)	(4,600,435)
Gross profit		1,861,805	1,480,804
Selling, general and administrative expenses		(1,579,329)	(1,196,186)
Lease/sublease and other income		96,462	68,870
Operating profit		378,938	353,488
Finance costs	12	(99,214)	(116,808)
Finance income	12	1,514	2,669
Share of income/(loss) of associates		440	(2,568)
Net foreign exchange result		(12,699)	(38,103)
Profit before tax		268,979	198,678
Income tax expense	14	(85,641)	(77,503)
Profit for the period		183,338	121,175
Profit for the period attributable to:			
Equity holders of the parent		183,945	121,175
Non-controlling interest	5	(607)	-
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)			
		2.71	1.79
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)			
		2.70	1.79

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25 November 2010

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25 November 2010



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X5 Retail Group N.V.
Condensed Consolidated Interim Statement of Comprehensive Income
for the nine months ended 30 September 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Profit for the period	183,338	121,175
Other comprehensive income/(loss)		
Exchange differences on translation from functional to presentation currency	(10,321)	(29,692)
Cash flow hedges	8,337	3,022
Other comprehensive loss for the period	(1,984)	(26,670)
Total comprehensive income for the period	181,354	94,505
Total comprehensive income for the period attributable to:		
Equity holders of the parent	181,354	94,505

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X5 Retail Group
Condensed Consolidated Interim Statement of Cash Flows
for the nine months ended 30 September 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Note	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Profit before tax		268,979	198,678
Adjustments for:			
Depreciation and amortisation	7	214,248	155,291
Loss on disposal of property, plant and equipment		2,908	1,326
Finance costs, net	12	97,700	114,139
Impairment of trade and other accounts receivable		5,226	9,510
Share-based payments expense	13	47,305	31,568
Amortisation of deferred expenses		11,441	7,221
Net foreign exchange loss		12,699	38,103
(Income)/Loss from associate		(440)	2,568
Other non-cash items		(596)	13,488
Net cash from operating activities before changes in working capital		659,470	571,892
Increase in trade and other accounts receivable		(96,866)	(72,958)
Decrease/(Increase) in inventories		4,918	(21,315)
Decrease in trade accounts payable		(396,559)	(115,245)
(Decrease)/Increase in other accounts payable and deferred revenue		(47,353)	26,635
Net cash generated from operations		123,610	389,009
Interest paid		(75,130)	(101,169)
Interest received		1,250	3,884
Income tax paid		(115,937)	(101,248)
Net cash flows (used in)/generated from operating activities		(66,207)	190,476
Cash flows from investing activities:			
Purchase of property, plant and equipment		(196,564)	(106,839)
Proceeds from sale of property, plant and equipment		1,554	1,915
Non-current prepaid lease		(10,300)	(1,773)
Investments in subsidiaries	5	(28,362)	(27,550)
Purchase of intangible assets		(17,992)	(14,859)
Net cash used in investing activities		(251,664)	(149,106)
Cash flows from financing activities:			
Proceeds from short-term loans		396,291	301,952
Repayment of short-term loans		(658,680)	(547,547)
Proceeds from long-term loans		268,250	242,926
Repayment of long-term loans		(3,914)	(39,138)
Acquisition of derivative financial instruments		-	(2,453)
Principal payments on finance lease obligations		(2,965)	(3,327)
Net cash used in financing activities		(1,018)	(47,587)
Effect of exchange rate changes on cash and cash equivalents		(1,038)	6,171
Net decrease in cash and cash equivalents		(319,927)	(46)
Movements in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		411,681	276,837
Net decrease in cash and cash equivalents		(319,927)	(46)
Cash and cash equivalents at the end of the period		91,754	276,791

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X5 Retail Group
Condensed Consolidated Interim Statement of Changes In Equity
for the nine months ended 30 September 2010
(expressed in thousands of US Dollars, unless otherwise stated)

	Attributable to the shareholders of the Company							Non-controlling interest	Total	
	Number of shares	Share capital	Share premium	Hedging reserve	Employee stock plan	Cumulative translation reserve	Accumulated profit			Total shareholders' equity
Balance as at 1 January 2009	67,813,947	93,712	2,049,144	(18,180)	-	(520,184)	33,941	1,638,433	-	1,638,433
Other comprehensive income/(loss) for the period	-	-	-	3,022	-	(29,692)	-	(26,670)	-	(26,670)
Profit for the period	-	-	-	-	-	-	121,175	121,175	-	121,175
Total comprehensive income/(loss) for the period	-	-	-	3,022	-	(29,692)	121,175	94,505	-	94,505
Balance as at 30 September 2009	67,813,947	93,712	2,049,144	(15,158)	-	(549,876)	155,116	1,732,938	-	1,732,938
Other comprehensive income/(loss) for the period	-	-	-	5,050	-	(9,700)	-	(4,650)	-	(4,650)
Profit for the period	-	-	-	-	-	-	44,176	44,176	-	44,176
Total comprehensive income/(loss) for the period	-	-	-	5,050	-	(9,700)	44,176	39,526	-	39,526
Balance as at 31 December 2009	67,813,947	93,712	2,049,144	(10,108)	-	(559,576)	199,292	1,772,464	-	1,772,464
Other comprehensive income/(loss) for the period	-	-	-	8,337	-	(10,321)	-	(1,984)	-	(1,984)
Profit/(loss) for the period	-	-	-	-	-	-	183,945	183,945	(607)	183,338
Total comprehensive income/(loss) for the period	-	-	-	8,337	-	(10,321)	183,945	181,961	(607)	181,354
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	1,944	1,944
Value of employee services (Note 13)	-	-	-	-	2,285	-	-	2,285	-	2,285
Balance as at 30 September 2010	67,813,947	93,712	2,049,144	(1,771)	2,285	(569,897)	383,237	1,956,710	1,337	1,958,047

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25 November 2010

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25 November 2010

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The accompanying Notes on pages 6 to 22 are an integral part of these condensed consolidated interim financial statements.

1 PRINCIPLE ACTIVITIES AND GROUP STRUCTURE

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

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

The main activity of the Group is the development and operation of grocery retail stores. As at 30 September 2010 the Group operated a retail chain of 1,630 soft-discount, supermarket, hypermarket and convenience stores under the brand names "Pyaterochka", "Perekrestok", "Karusel" and "Perekrestok-Express" in major population centres in Russia, including but not limited to Moscow, St. Petersburg, Nizhniy Novgorod, Rostov-on-Don, Kazan, Samara, Lipetsk, Chelyabinsk, Perm, Ekaterinburg and Kiev, Ukraine (31 December 2009: 1,372 soft-discount, supermarket and hypermarket stores under the brand names "Pyaterochka", "Perekrestok" and "Karusel"). The Group's multiformat store network comprises 1,232 soft discount stores under "Pyaterochka" brand, 289 supermarkets under "Perekrestok" brand, 65 hypermarkets under "Karusel" brand and 44 convenience stores under "Perekrestok-Express" brand (31 December 2009: 1,039 soft discount stores under "Pyaterochka" brand, 275 supermarkets under "Perekrestok" brand and 58 hypermarkets under "Karusel" and "Perekrestok" brands).

In addition as at 30 September 2010, the Group's franchisees operated 632 stores (31 December 2009: 620 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As of 30 September 2010 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 30 September 2010 the Company's shares are listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs), with each GDR representing an interest of 0.25 in an ordinary share (Note 10). As of 30 September 2010 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 Kousmichoff (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 2010 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009 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 2009, except for the standards and interpretations which became effective for the Group from 1 January 2010 (Note 3) and new accounting policy related to long term incentive plan (Note 13):

The Group receives services from employees as consideration for conditional rights to receive GDRs after vesting period of 3 years and fulfilment of certain performance conditions.

Share-based payment transactions are accounted as an equity-settled transaction.

The fair value of the employee services received in exchange for the grant of the conditional rights is recognised as an expense and measured by reference to the market price of the GDRs which is determined at grant date.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currency translation and transactions

(a) Functional and presentation currency

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

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

(b) Transactions and balances

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

At 30 September 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 30.4030 (31 December 2009: USD 1 = RUR 30.2442). Average rate for the nine months ended 30 September 2010 was USD 1 = RUR 30.2538 (nine months 2009: USD 1 = RUR 32.4814).

3 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain new interpretations became effective for the Group from 1 January 2010:

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

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 allows 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 has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs are accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer has to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date is recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Amended standard did not have material effect on the Group consolidated interim financial statements.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is 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 further has to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its consolidated financial statements to evaluate the nature and extent of liquidity risk.

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

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 requires 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 has to be measured at its fair value. Amended standard did not have effect on the Group consolidated interim financial statements.

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). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 19 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

IFRIC 12, Services Concession Arrangements (effective for annual periods beginning on or after 30 March 2009; IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, with early adoption permitted). The interpretation contains guidance on applying the existing standards by service providers in public-to-private service concession arrangements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a Group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). 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 are recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 does not have effect on the Group's financial statements.

IFRIC 18, Transfers of Assets from Customers (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). 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 does not have effect on the Group's financial statements.

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2010 and have not been early adopted:

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

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

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

IAS 24, Related Party Disclosures (amended November 2009, effective for annual periods beginning on or after 1 January 2011). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Classification of Rights Issues – Amendment to IAS 32, Financial Instruments: Presentation (effective for annual periods beginning on or after 1 February 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The amendment states that, if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of any currency, they should be classified as equity, regardless of the currency in which the exercise price is denominated. The Group is currently assessing the impact of the amendment on its financial statements.

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

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

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

4 SEGMENT REPORTING

The Group identifies retailing operations as a single reportable segment.

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

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

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

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4 SEGMENT REPORTING (continued)

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

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

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

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

The segment information for the period ended 30 September 2010 is as follows:

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Retail sales	7,785,820	6,058,927
Other revenue	11,864	22,312
Revenue	7,797,684	6,081,239
EBITDA	593,186	508,779
Capital expenditure	211,444	93,230

	30 September 2010	31 December 2009
Total assets	5,934,680	6,179,844
Total liabilities	3,976,633	4,407,380

Assets and liabilities are presented in a manner consistent with that in the condensed consolidated interim financial statements. Capital expenditure does not include additions to intangible assets (Note 7).

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

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
EBITDA	593,186	508,779
Depreciation and amortization	(214,248)	(155,291)
Operating profit	378,938	353,488
Finance cost, net	(97,700)	(114,139)
Net foreign exchange result	(12,699)	(38,103)
Share of income/(loss) of associates	440	(2,568)
Profit before income tax	268,979	198,678
Income tax expense	(85,641)	(77,503)
Profit for the period	183,338	121,175

5 ACQUISITION OF SUBSIDIARIES

Retail Express

In April 2010 the Group acquired an additional 20% of the voting shares of Retail Express Limited. Retail Express Ltd is the owner of Perekrestok-Express convenience store chain ("Express Retail"). The purchase brings the Group's total ownership interest to 60% of Retail Express Ltd, with an option to acquire the remainder of the business by 2013. Fair value of the option is insignificant.

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5 ACQUISITION OF SUBSIDIARIES (continued)

In the nine months ended 30 September 2010 the acquired business of Express Retail contributed revenue of USD 41,415 and a net loss of USD 1,517 from the date of acquisition. If the acquisition of Express Retail had occurred on 1 January 2010, the Group's revenue for the nine months ended 30 September 2010 would have been USD 7,816,095 and the Group's profit for the nine months ended 30 September 2010 would have been USD 184,556.

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

	Acquiree's carrying amount at the acquisition date, Russian GAAP*	Provisional values at the acquisition date
Cash and cash equivalents	758	758
Inventories of goods for resale	5,261	4,976
Trade and other accounts receivable	10,856	3,227
Intangible assets (Note 7)	36	5,692
Property, plant and equipment (Note 7)	3,183	3,328
Deferred tax assets	5,084	3,944
Trade and other accounts payable	(15,848)	(14,836)
Long-term borrowings	(1,998)	(1,998)
Deferred tax liability	(230)	(234)
Net assets acquired	7,102	4,857
Consideration transferred		6,020
Fair value of interest acquired previously		6,569
Non-controlling interest		1,944
		14,533
Goodwill (Note 8)		9,676
Net cash outflow arising from the acquisition		5,262

* 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 based on estimates of the independent appraisal. The Group will finalise the purchase price allocation within 12 month from the acquisition date. The non-controlling interest was measured at proportionate share of identifiable net assets at the date of acquisition. As the result of obtaining control over Express Retail, the previously held 40% interest was remeasured to fair value, resulting in a gain of USD 304 recognized in the consolidated income statement.

The purchase consideration comprises cash and cash equivalents of USD 6,020.

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

Ostrov

In September 2010 the Group acquired 100% of the voting shares of ZAO "Ostrov Invest", which operates stores in Moscow and the Moscow Region under the Ostrov brand.

In the nine months ended 30 September 2010 the acquired business of Ostrov contributed revenue of USD 552 and a net profit of USD 69 from the date of acquisition. If the acquisition of Ostrov had occurred on 1 January 2010, the Group's revenue for the nine months ended 30 September 2010 would have been USD 7,884,122 and the Group's profit for the nine months ended 30 September 2010 would have been USD 180,072.

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5 ACQUISITION OF SUBSIDIARIES (continued)

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

	Acquiree's carrying amount at the acquisition date, Russian GAAP*	Provisional values at the acquisition date
Cash and cash equivalents	900	900
Inventories of goods for resale	2,748	2,733
Loans originated	3	2
Trade and other accounts receivable	2,221	1,331
Intangible assets (Note 7)	22	7,090
Property, plant and equipment (Note 7)	4,896	14,088
Deferred tax assets	4	3
Short-term borrowings	(5,771)	(5,771)
Trade and other accounts payable	(10,412)	(11,478)
Provisions for tax contingencies (Note 17)	-	(25,148)
Deferred tax liability	(14)	(3,006)
Net liabilities acquired	(5,403)	(19,256)
Goodwill (Note 8)		48,096
Total acquisition cost		28,840
Net cash outflow arising from the acquisition		23,100

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

The Group assigned provisional values to net liabilities acquired based on estimates of the independent appraisal. The Group will finalise the purchase price allocation within 12 month from the acquisition date.

The purchase consideration comprises cash and cash equivalents of USD 24,000 and deferred consideration of USD 4,840.

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

6 RELATED PARTY TRANSACTIONS

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

The nature of the relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding at 30 September 2010 are provided below. The ultimate controlling party is disclosed in Note 1.

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6 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 2010	Nine months ended 30 September 2009
CTF Holdings Ltd.			
	Ultimate parent company		
Management services received		962	1,445
Recharged expenses		336	-
Alfa-Bank			
	Under common control		
Interest expense on loan received		5,398	16,988
Interest income		751	1,024
Bank charges		1,143	864
Rent revenue		686	615
VimpelCom			
	Under significant influence of CTF Holdings Ltd.		
Communication services received		3,130	2,665
Commission for mobile phone payments processing rendered by the Group to VimpelCom		646	507
Rent revenue		98	44
AlfaInsurance			
	Under common control		
Insurance expenses		136	109
Megafon			
	Under common control		
Commission for mobile phone payments processing rendered by the Group to Megafon		439	132
Rent revenue		181	107

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

	Relationship	30 September 2010	31 December 2009
CTF Holding Ltd.			
	Ultimate parent company		
Other accounts payable		15	115
Alfa-Bank			
	Under common control		
Cash and cash equivalents		11,874	208,610
Receivable from related party		300	277
Short-term loans payable		-	75,000
Other accounts payable		188	112
AlfaInsurance			
	Under common control		
Receivable from related party		87	76
Other accounts payable		-	10
VimpelCom			
	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		308	512
Other accounts payable		913	536
Megafon			
	Under common control		
Receivable from related party		94	-
Other accounts payable		236	-

6 RELATED PARTY TRANSACTIONS (continued)

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 15,100 million or USD 496,662 (31 December 2009: RUR 9,100 million or USD 300,884). At 30 September 2010 the Group did not have liability under credit line (31 December 2009: USD 75,000), available credit line was USD 496,662 (31 December 2009: USD 225,884). The Group has certain purchase agreements under which the Group settles its liabilities to Alfa-Bank in accordance with factoring arrangements concluded between vendors of goods and Alfa-Bank.

Key executive management personnel

The Group's key management personnel consists of Management and Supervisory Board members, having authority and responsibility for planning, directing and controlling the activities of the Group as a whole. Members of the Management Board and Supervisory Board of the Group receive compensation in the form of short-term compensation in cash (including, for Management Board members, an annual cash bonus and share-based payments (Note 13). For the nine months ended 30 September 2010 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 5,545 (nine months ended 30 September 2009: USD 5,284), including accrued annual target bonuses of USD 1,755 (nine months ended 30 September 2009: USD 2,159) payable on an annual basis subject to meeting annual performance targets. As at 30 September 2010 the total number of GDRs for which options were granted to members of the Management Board and Supervisory Board under the ESOP was 2,676,250 (31 December 2009: 3,187,500 GDRs) and conditional rights under LTI plan was 178,268. The total intrinsic value of vested share options amounted to USD 40,307 as at 30 September 2010 (31 December 2009: USD 1,245).

7 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2010		2009	
	Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets
Cost				
Balance as at 1 January	3,555,261	633,323	3,379,123	598,383
Additions	211,444	19,608	93,230	24,671
Transfers	(2,000)	-	-	-
Assets from acquisitions (Note 5)	17,416	12,782	-	-
Disposals	(24,215)	(13,706)	(5,863)	(1,691)
Translation movement	(19,414)	(3,434)	(73,118)	(12,329)
Balance as at 30 September	3,738,492	648,573	3,393,372	609,034
Accumulated Depreciation				
Balance as at 1 January	(559,932)	(137,212)	(340,079)	(99,059)
Depreciation charge	(165,772)	(44,054)	(122,919)	(28,828)
Disposals	6,931	13,704	2,622	1,691
Translation movement	3,692	766	(1,437)	188
Balance as at 30 September	(715,081)	(166,796)	(461,813)	(126,008)
Net Book Value				
Balance as at 1 January	2,995,329	496,111	3,039,044	499,324
Balance as at 30 September	3,023,411	481,777	2,931,559	483,026

The buildings are mostly located on leased land. Land leases with periodic lease payments are disclosed as part of commitments under operating leases (Note 17). Most of land leases are prepaid for the 10-30 year term. Such prepayments are presented as prepaid leases in the statement of financial position and amount to USD 97,222 (31 December 2009: USD 98,510).

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8 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	2010	2009
Cost:		
Gross book value at 1 January	2,960,080	2,811,579
Acquisition of subsidiaries (Note 5)	57,772	19,154
Translation to presentation currency	(15,449)	(66,064)
Gross book value at 30 September	3,002,403	2,764,669
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,192,557)	(2,257,020)
Translation to presentation currency	11,451	53,388
Accumulated impairment losses at 30 September	(2,181,106)	(2,203,632)
Carrying amount at 30 September	821,297	561,037
Carrying amount at 1 January	767,523	554,559

Goodwill Impairment Test

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

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

There was no impairment of goodwill from 31 December 2008. No events indicating triggers of goodwill impairment occurred in the nine months ended 30 September 2010. The Group will perform annual impairment test of goodwill at 31 December 2010.

9 BORROWINGS

	Interest rate, % p.a.	30 September 2010			31 December 2009		
		Current During 1 year	Non- current In 1 to 4 years	Total	Current During 1 year	Non- current In 1 to 3 years	Total
USD Club loan	Libor+2.5%	-	387,479	387,479	1,093,135	-	1,093,135
RUR Club loan	MosPrime +2.5%	-	406,277	406,277	-	-	-
USD Bilateral Loans	3.6%-3.86%	-	-	-	75,000	-	75,000
RUR Bonds	7.95% - 18.46%	254,394	228,195	482,589	297,390	262,403	559,793
RUR Bilateral Loans	Mosprime +2% - 3.1%	150,709	280,362	431,071	57,874	24,972	82,846
RUR Bilateral Loans	4.35%-5.49%	250,064	-	250,064	133,223	3	133,226
USD Loans from acquisition	12% - 14.5%	5,180	-	5,180	-	-	-
RUR Loans from acquisition	16.5% - 20%	2,631	-	2,631	-	-	-
Total borrowings		662,978	1,302,313	1,965,291	1,656,622	287,378	1,944,000

In July 2010 the Group fulfilled its obligations in respect of RUR 9 billion corporate bonds. The new annual rate for the next 8 semi-annual coupons is 7.95%. Within the framework of the put-option and in line with overall debt portfolio management the Group bought back 2,035,483 bonds with nominal value of 1,000 RUR. The outstanding amount of the corporate bonds decreased from 9,000,000 to 6,964,517 becoming long-term with maturity in July 2014.

In September 2010 the Group signed and effected drawdown of the new club loan with a total amount of USD 800,000 for partially refinancing the existing USD 1,100,000 syndicated facility, which was due to mature in December 2010. The rest of the syndicated facility was refinanced through other existing facilities. The new club loan is for three years, consists of USD-denominated and RUR-denominated facilities (each equivalent of USD 400,000) and will pay a margin of 250 basis points over MosPrime/LIBOR for both the RUR and USD lines. No collateral is provided for these facilities.

9 BORROWINGS (continued)

In September 2010 the Group and Sberbank finalized documentation of a five-year rouble denominated revolving committed credit facility with a total value of USD 500,000 (in RUR equivalent based on the exchange rate of the Central Bank of the Russian Federation as at the draw down date) and interest rate determined as a spread over 3-month MosPrime (depending of the maturity) effective until December 2015. The credit facility may be utilized in several tranches with maturities of up to 3 years. No collateral is provided for this facility.

Loans from acquisition comprised mainly of loans from Ostrov companies in the total amount of USD 5,811 and were fully repaid in October 2010 (Note 18).

All borrowings at 30 September 2010 are shown net of related transaction costs of USD 26,712 which are amortized over the term of loans using the effective interest method (31 December 2009: USD 10,056).

In accordance with new signed facilities the Group maintains an optimal capital structure by tracking certain capital requirements: the maximum level of Net Debt/EBITDA (4.00 / 4.25 after acquisition), minimum level of EBITDA/Net Interest expense (2.75). The facilities are provided on unsecured basis.

10 SHARE CAPITAL

In April 2010 1,746,505 ordinary shares were transferred in exchange for Global Depositary Receipts ("GDR"). These shares were issued in 2008 as part of the consideration paid for the Karusel hypermarket chain. The increase in the size of listing on the Main Market of the London Stock Exchange did not affect the number of outstanding shares, which remains unchanged at 67,893,218, while the number of GDRs admitted to trading on the London Stock Exchange's Regulated Market increased by 6,986,020. Following this conversion, 100% of the Group share capital is held in the form of GDRs.

As at 30 September 2010 the Group had 190,000,000 authorized ordinary shares of which 67,813,947 ordinary shares are outstanding and 79,271 ordinary shares held as treasury stock.

11 EXPENSES

Among other expenses charged for the nine months ended 30 September 2010 are the following:

- Operating lease expenses, which include USD 274,273 of minimum lease payments (nine months ended 30 September 2009: USD 172,697) and contingent rents of USD 10,185 (nine months ended 30 September 2009: USD 14,136).

12 FINANCE INCOME AND COSTS

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Interest expense	87,684	110,013
Interest income	(1,514)	(2,669)
Other finance costs, net	11,530	6,795
	97,700	114,139

13 SHARE-BASED PAYMENTS

Employee stock option program

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



13 SHARE-BASED PAYMENTS (continued)

In total, during the nine months ended 30 September 2010 the Group recognized expenses related to the ESOP in the amount of USD 43,465 (expenses during nine months ended 30 September 2009: USD 31,568). At 30 September 2010 the share-based payments liability amounted to USD 90,611 (31 December 2009: USD 85,545). The equity component was effectively zero at 30 September 2010 (31 December 2009: zero). The total intrinsic value of vested share options amounted to USD 65,844 as at 30 September 2010 (31 December 2009: USD 2,538).

Details of the share options outstanding during the nine months ended 30 September 2010 are as follows:

	Number of share options	Weighted average exercise price, USD
Outstanding at the beginning of the period	7,586,950	24.4
Exercised during the period	(2,608,000)	20.0
Cancelled during the period	(41,250)	24.0
Outstanding at the end of the period	4,937,700	26.7
Exercisable at 30 September 2010	4,937,700	26.7

The fair value of services received in return for the share options granted to employees is measured by reference to the fair value of the share options granted which is determined at each reporting date. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Expected volatility is determined by calculating the historical volatility of the Group's share price over the period since May 2006. Management assumes that holders will exercise the options on the expiry date of the options due to behavioral considerations. Other key inputs to the calculation of ESOP liability at 30 September 2010 were as follows:

Expected GDR price	40.30
Expected volatility	56%
Risk-free interest rate	1%
Dividend yield	0%

Employee stock plan

In 2010 the Group introduced its next generation long term incentive plan in the form of a Restricted Stock Unit Plan (RSU Plan) for its key executives and employees. Each Restricted Stock Unit (RSU) that may be granted under the RSU Plan carries the right to one GDR. The program runs in four tranches granted over the period to 19 May 2014. Over the period of four calendar years starting 2010, the RSU Plan provides for the annual grant of conditional rights to RSUs, subject to i) the achievement of specific performance criteria of the Group (KPIs) and ii) continuous employment with the Group until the completion of the vesting period. The KPIs mainly relate to (i) the performance of the Group compared to the performance of a selected group of comparable competitors in achieving sustained growth and an increasing presence in its markets of operation and (ii) maintain agreed profitability ratio of the Group at a pre-defined level.

Members of the Supervisory Board may be granted conditional RSUs not subject to performance criteria. The General Meeting of Shareholders determines the number of conditional RSUs granted to members of the Supervisory Board. The RSU Plan, as well as the first tranche of conditional RSUs in favour of members of the Supervisory Board, was approved by Annual General Meeting of Shareholders on 25 June 2010. The first tranche will vest on 19 May 2013. Upon vesting the RSUs will be converted into GDRs registered in the participant's name. Subsequently, GDRs are subject to a two-year lock-in period during which period the GDRs cannot be traded.

In total, during the nine months ended 30 September 2010 the Group recognized expenses related to the RSU plan in the amount of USD 3,840. At 30 September 2010 the equity component was USD 2,285. The fair value of services received in return for the conditional RSUs granted to employees is measured by reference to the market price of the GDRs which is determined at grant date.

Details of the conditional rights outstanding during the nine months ended 30 September 2010 are as follows:

	Number of conditional rights	Weighted average fair value, USD
Outstanding at the beginning of the period	-	-
Granted during the period	832,702	35.50
Outstanding at the end of the period	832,702	35.50

X5 Retail Group
Notes to Condensed Consolidated Interim Financial Statements
Nine months ended 30 September 2010
(expressed in thousands of US Dollars, unless otherwise stated)

14 INCOME TAX

	Nine months ended 30 September 2010	Nine months ended 30 September 2009
Current income tax charge	(88,195)	(98,598)
Deferred income tax benefit	2,554	21,095
Income tax expense	(85,641)	(77,503)

15 SEASONALITY

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

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

16 FINANCIAL RISKS MANAGEMENT

Currency risk

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

The Group has significantly reduced its foreign currency exposure through refinancing of the syndicated loan, foreign exchange risk is mostly limited to USD 400,000 tranche of the new club (Note 9). Foreign exchange risk is therefore considered to be insignificant.

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

Interest rates risk

In September 2010 the Group minimized interest rate risk related to LIBOR rate by refinancing of USD 1,100,000 syndicated facility through RUR and USD borrowings. Mosprime rate risk is managed through the balanced credit portfolio, using different types of financing instruments taken on basis of fixed and floating rates. There is a formal policy in place for management of interest rate risks.

Liquidity risk

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

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

30 September 2010

	During 1 year	In 1 to 4 years
Borrowings	793,345	1,449,043
Trade accounts payable	1,052,834	-
Finance lease liabilities	1,650	3,125
Derivative financial liabilities	1,771	-
Other finance liabilities	308,565	-
	2,158,165	1,452,168

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16 FINANCIAL RISKS MANAGEMENT (continued)

31 December 2009

	During 1 year	In 1 to 3 years
Borrowings	1,761,560	312,283
Trade accounts payable	1,556,325	-
Finance lease liabilities	1,950	4,586
Derivative financial liabilities	10,108	-
Other finance liabilities	284,498	-
	3,614,441	316,869

At 30 September 2010 the Group has negative working capital of USD 1,197,992 (31 December 2009: USD 2,335,950) including short-term borrowings of USD 662,978 (31 December 2009: USD 1,656,622).

At 30 September 2010 the Group had available bank credit lines of USD 1,001,644 (31 December 2009: USD 555,170).

At 30 September 2010 the Group short-term borrowings mainly comprised of a corporate bonds and bilateral loans of USD 662,978.

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 the 4th quarter, when the free cash flow allows for the repayment of short-term debts. Part of the existing lines in the local currency (RUR) are provided on 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, if required.

The Group is carefully monitoring its liquidity profile by maximizing the drawdown periods within revolving credit facilities as well as extending existing credit facilities or obtaining new credit lines. The Group manages liquidity requirements by the use of both short-term and long-term projections and maintaining the availability of funding. Based on the review of the current liquidity position of the Group management considers that the available credit lines and expected cash flows are more than sufficient to finance the Group's current operations.

17 COMMITMENTS AND CONTINGENCIES

Commitments under operating leases

At 30 September 2010, the Group operated 1,044 stores through rented premises (31 December 2009: 802 stores). There are two types of fees in respect of operating leases payable by the Group: fixed and variable. For each store fixed rent payments are defined in the lease contracts. The variable part of rent payments is predominantly denominated in RUR and normally calculated as a percentage of turnovers. Fixed rent payments constitute the main part of operating lease expenses of the Group as compared to the variable fees.

17 COMMITMENTS AND CONTINGENCIES (continued)

Commitments under operating leases (continued)

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

	30 September 2010 (present value)	31 December 2009 (present value)	30 September 2010 (nominal value)	31 December 2009 (nominal value)
During 1 year	233,625	199,983	251,405	215,389
In 2 to 5 years	444,850	351,996	662,707	525,354
Thereafter	177,187	139,307	594,226	474,981
	855,662	691,286	1,508,338	1,215,724

A discount rate applied in determining the present value of future minimum lease payments is based on the Group weighted average cost of capital (12-16%).

Capital expenditure commitments

At 30 September 2010 the Group contracted for capital expenditure of USD 132,882 (net of VAT) (31 December 2009: USD 100,068).

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.

Inter-company transactions undertaken by the companies of the Group are potentially subject to transfer pricing controls established by Article 40 of the Russian Tax Code. Tax liabilities arising from inter-company transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. The Russian tax legislation does not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated.

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

17 COMMITMENTS AND CONTINGENCIES (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 the aforementioned risks, as well as other profits tax and non-profits tax risks (e.g. imposition of additional VAT liabilities), that are more than remote, but for which no liability is required to be recognised under IFRS, could be several times the additional accrued liabilities and provisions reflected on the statement of financial position at that date (and potentially in excess of the Group's profit before tax for the year). This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

At the same time management has recorded liabilities for income taxes and provisions for taxes other than income taxes in the amount of USD 158,014 at 30 September 2010 (31 December 2009: USD 147,087) in these condensed consolidated interim financial statements as their best estimate of the Group's liability related to tax uncertainties as follows:

Balance at 1 January 2009	110,619
Increases due to acquisitions during the year recorded as part of the purchase price allocation	41,253
Translation movement	(4,785)
Balance at 31 December 2009	147,087
Increases due to acquisitions during the year recorded as part of the purchase price allocation (Note 5)	25,148
Release of provision	(13,702)
Translation movement	(519)
Balance at 30 September 2010	158,014

18 SUBSEQUENT EVENTS

In October 2010 the Group repaid all loans of Ostrov companies in the total amount of USD 5,811 after acquisition (Note 9).