X5 REPORTS SECOND QUARTER 2010 RESULTS:

SOLID TOP LINE GROWTH AND STRONG EBITDA MARGIN OF 8.3%

STEPPED UP PACE OF NEW STORE OPENINGS

OUTLOOK FOR 2010 SALES AND CAPEX REITERATED

Amsterdam, 26 August 2010- X5 Retail Group N.V., Russia's largest retailer in terms of sales (LSE ticker: "FIVE"), today published its interim report for the second quarter and first half of 2010. The full version of the report including condensed consolidated interim financial statements for the six months ended 30 June 2010 is available on our corporate website at http://www.x5.ru/en/investors/financial_reports/.

Q2 2010 Highlights

- Net sales increased 17% year-on-year in RUR terms to RUR 79,850 mln or 25% in USD terms to USD 2,641 mln;
- Gross profit totaled USD 638 mln, for a gross margin of 24.1%;
- EBITDA amounted to USD 220 mln, for an EBITDA margin of 8.3%;
- X5 reported a net profit of USD 25 mln affected by a foreign exchange (FX) loss;

H1 2010 Highlights

- Net sales increased 18% year-on-year in RUR terms to RUR 155,853 mln or 30% in USD terms to USD 5,184 mln;
- Gross profit totaled USD 1,232 mln, for a gross margin of 23.8%;
- EBITDA amounted to USD 399 mln, for an EBITDA margin of 7.7%;
- X5 reported a net profit of USD 104 mln;

- X5 reiterates 2010 sales growth and CapEx outlook, as provided on 27 May 2010.

X5 Retail Group CEO **Lev Khasis** commented:

"X5 delivered solid second quarter sales growth and strong EBITDA margin. Discounters again led the industry in net sales and like-for-like sales growth, hypermarkets' results were positive while supermarkets are still hampered by trading down trends and we are positioning the format for an upturn to benefit from future economic recovery. X5 is driving positive business momentum – with increased market leadership, stepped up pace of new store openings, completion of Paterson integration and continuous focus on quality, convenience and value for customers – giving us confidence in our outlook for the year.

"Strong EBITDA margin of 8.3% this quarter was in line with our expectations and considerably higher than in the first quarter of 2010. We continued to strengthen X5's value propositions but at a reduced level of gross margin reinvestment. SG&A as a percent of sales rose slightly year on year as X5 incurred increased costs in some areas, including Paterson store conversions, while at the same time Q2 2010 sales from new and converted stores were still ramping up. We continue to drive operational excellence to secure long-term competitiveness and efficiency benefits."

X5 Retail Group CFO **Evgeny Kornilov** added:

"We are well positioned to support X5's growth objectives while protecting the Company's balance sheet and staying within our CapEx limits. The Company has access to RUR-denominated Sberbank's committed credit line for refinancing X5's USD 1.1 bln syndicate loan later this year. Investors showed their confidence in X5 when the Company successfully fulfilled its obligations in respect of RUR 9 billion in corporate debt with holders of 85% of the issue electing to keep their bonds with maturity in July 2014. There were temporary movements in liquidity as the bonds were classified as short-term debt at June 30 and reverted to long-term debt following the put exercise in July 2010."

Profit & Loss – Key Trends and Developments

P&L Highlights[(1), (2)]

USD mln	Q2 2010	Q2 2009	*% change y-o-y*	H1 2010	H1 2009	*% change y-o-y*
Net Sales	**2,640.9**	**2,111.2**	***25%***	**5,183.6**	**3,978.1**	***30%***
incl. Retail	2,637.7	2,099.6	*26%*	5,172.0	3,959.0	*31%*
Gross Profit	**637.8**	**520.8**	***22%***	**1,231.9**	**979.0**	***26%***
Gross Margin, %	*24.1%*	*24.7%*		*23.8%*	*24.6%*	
EBITDA	**220.3**	**184.3**	***20%***	**398.8**	**347.0**	***15%***
EBITDA Margin, %	*8.3%*	*8.7%*		*7.7%*	*8.7%*	
Operating Profit	**146.9**	**129.1**	***14%***	**258.1**	**246.0**	***5%***
Operating Margin, %	*5.6%*	*6.1%*		*5.0%*	*6.2%*	
Net Profit / (Loss)	**24.9**	**130.4**	***(81%)***	**103.8**	**48.3**	***115%***
Net Margin, %	*0.9%*	*6.2%*		*2.0%*	*1.2%*	

Net Sales & Gross Margin Performance

USD mln	Q2 2010	Q2 2009	*% change y-o-y*	H1 2010	H1 2009	*% change y-o-y*
Net Sales	**2,640.9**	**2,111.2**	***25%***	**5,183.6**	**3,978.1**	***30%***
incl. Retail	2,637.7	2,099.6	*26%*	5,172.0	3,959.0	*31%*
Hypermarkets	487.8	394.8	*24%*	958.9	747.9	*28%*
Supermarkets	630.5	573.7	*10%*	1,276.6	1,113.7	*15%*
Soft Discounters	1,496.1	1,131.1	*32%*	2,909.2	2,097.3	*39%*
Convenience stores[(3)]	19.2	-	*n/a*	19.2	-	*n/a*
Online[(4)]	4.0	-	*n/a*	8.0	-	*n/a*
Gross Profit	**637.8**	**520.8**	***22%***	**1231.9**	**979.0**	***26%***
Gross Margin, %	24.1%	24.7%		23.8%	24.6%	

(1) Please note that in this and other tables of the Interim Management Report immaterial deviations in calculation of % change, subtotals and totals are explained by rounding.

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

(3) Included from April 2010

(4) Included from October 2009

For the second quarter 2010 X5 reported net sales of USD 2,641 million - a year-on-year increase of 25% in USD terms. In RUR terms net revenue for the quarter increased 17% year-on-year. For first half 2010 net sales totaled USD 5,184 million - a year-on-year increase of 30% in USD terms and 18% growth in RUR terms with 5% growth in like-for-like (LFL)[(1)] sales with the rest coming from expansion. This growth was achieved amid extremely low price inflation on X5's shelves (1.5% for the period 30 June 2010 to 30 June 2009) versus an official inflation rate of 4.5% for the same period.

In Q2 2010 soft discounters delivered industry-beating 11% LFL growth, thanks to the format's successful brand promise of *lowest price in the market on 100% of assortment* policy. Supermarkets' performance is still hampered by consumer trading down trends. Hypermarkets showed positive LFL trends and we continue to increase the customer appeal of this format by executing our *Everything under one roof – at Low Prices* concept.

Second quarter 2010 gross margin totalled 24.1% - a 60 bp decline versus second quarter 2009, translating into the first half gross margin of 23.8% (80 bp decline year-on-year) in line with management's expectations.

[(1)] Like-for-like (LFL) comparisons of retail sales between two periods are comparisons of retail sales in local currency (including VAT) generated by the relevant stores. The stores that are included in LFL comparisons are those that have operated for at least twelve full months preceding the beginning of the last month of the reporting period. Their sales are included in LFL calculation starting from the first day of the month following the month of the store opening.

Selling, General and Administrative Expenses (SG&A)

USD mln	Q2 2010	Q2 2009	*% change y-o-y*	H1 2010	H1 2009	*% change y-o-y*
Staff Costs, incl.	(233.2)	(178.6)	*31%*	(462.4)	(342.4)	*35%*
% of Net Sales	*8.8%*	*8.5%*		*8.9%*	*8.6%*	
ESOP	(8.4)	(7.3)	*14%*	(33.7)	(5.2)	*545%*
% of Net Sales	*0.3%*	*0.3%*		*0.7%*	*0.1%*	
Lease Expenses	(87.5)	(63.2)	*38%*	(171.3)	(124.4)	*38%*
% of Net Sales	*3.3%*	*3.0%*		*3.3%*	*3.1%*	
Other Store Costs	(36.7)	(27.2)	*35%*	(69.2)	(51.0)	*36%*
% of Net Sales	*1.4%*	*1.3%*		*1.3%*	*1.3%*	
D&A	(73.3)	(55.2)	*33%*	(140.6)	(101.0)	*39%*
% of Net Sales	*2.8%*	*2.6%*		*2.7%*	*2.5%*	
Utilities	(48.5)	(36.5)	*33%*	(103.5)	(72.3)	*43%*
% of Net Sales	*1.8%*	*1.7%*		*2.0%*	*1.8%*	
Third Party Services	(19.1)	(17.6)	*8%*	(33.5)	(32.5)	*3%*
% of Net Sales	*0.7%*	*0.8%*		*0.6%*	*0.8%*	
Other Expenses	(24.3)	(34.9)	*(30%)*	(52.9)	(55.6)	*(5%)*
% of Net Sales	*0.9%*	*1.7%*		*1.0%*	*1.4%*	
Total SG&A	**(522.5)**	**(413.2)**	***26%***	**(1,033.4)**	**(779.2)**	***33%***
% of Net Sales	***19.8%***	***19.6%***		***19.9%***	***19.6%***	

Second quarter 2010 SG&A expenses as a percentage of revenue increased slightly by 20 bp year-on-year to 19.8%. X5 incurred increased costs in some areas, including Paterson stores temporary closings, while at the same time Q2 2010 sales from new store openings were still ramping up. Staff costs, excluding ESOP, increased mainly because of salary indexation for in-store personnel in Q2 2010. Lease expenses also increased by 30 bps year-on-year due to the addition of net 350 new stores compared to June 30, 2009. Other Expenses decreased sharply by 80 bp in Q2 2010 compared to the second quarter of 2009, when X5 created a provision for a one-off non-cash CIP Impairment charge.

As at 30 June 2010 the Company employed 72,804 people compared to 68,457 as at 31 December 2009. This increase is in line with the expansion of X5's store base and distribution centre capacity.

Non-Operating Gains and Losses

USD mln	Q2 2010	Q2 2009	*% change y-o-y*	H1 2010	H1 2009	*% change, y-o-y*
Operating Profit	**146.9**	**129.1**	*14%*	**258.1**	**246.0**	*5%*
Finance Costs (Net)	(29.9)	(40.7)	*(27%)*	(65.1)	(76.0)	*(14%)*
Net FX Result	(72.4)	86.0	*n/a*	(35.8)	(77.8)	*(54%)*
Share of Income/(Loss) of Associates	(0.0)	0.3	*n/a*	0.4	(2.5)	*n/a*
Profit before Tax	**44.6**	**174.6**	*(74%)*	**157.7**	**89.8**	*76%*
Income Tax Expense	(19.7)	(44.2)	*(55%)*	(53.9)	(41.5)	*30%*
Current Income Tax	(21.6)	(26.1)	*(17%)*	(50.7)	(68.8)	*(26%)*
Deferred Income (Tax)/Benefit	1.9	(18.1)	*n/a*	(3.2)	27.3	*n/a*
Net Profit	**24.9**	**130.4**	*(81%)*	**103.8**	**48.3**	*115%*
Net Margin, %	*0.9%*	*6.2%*		*2.0%*	*1.2%*	

Finance Costs

First half 2010 net finance costs decreased 14% year-on-year in USD terms and 22% in RUR terms due to lower interest rates on funding. The effective interest rate on X5's total debt for the first half 2010 was approximately 7.2% per annum.

Foreign Exchange (FX) Gain/(Loss)

The Company posted a USD 36 million of net foreign exchange (FX) loss in the first half of 2010, which is a result of USD 37 million net FX gain in the first quarter on the back of RUR appreciation and USD 72 million net FX loss in the second quarter due to significant RUR depreciation. This is a primarily non-cash item, resulting from revaluation of the Company's long-term USD-denominated debt.

Income Tax

In first half 2010, X5 reported income tax expense of USD 54 million. Effective tax rate for the first six months of 2010 totaled 34%, which is higher than the statutory tax rate for three main reasons: inventory shrinkage is not tax deductable in Russia, ESOP cost is only partially tax deductable and FX loss is only partially tax deductable.

Consolidated Cash Flow – Key Trends and Developments

USD mln	Q2 2010	Q2 2009	*% change y-o-y*	H1 2010	H1 2009	*% change y-o-y*
Net Cash Flows (used in)/generated from Operating Activities	(9.5)	77.9	*n/a*	(139.0)	39.5	*n/a*
Net Cash from Operating Activities before Changes in Working Capital	*238.6*	*210.2*	*13%*	*448.8*	*380.1*	*18%*
Change in Working Capital	*(176.9)*	*(56.1)*	*215%*	*(448.9)*	*(182.9)*	*145%*
Net Interest and Income Tax Paid	*(71.2)*	*(76.2)*	*(7%)*	*(138.9)*	*(157.8)*	*(12%)*
Net Cash Used in Investing Activities	(84.9)	(55.8)	*52%*	(136.8)	(99.0)	*38%*
Net Cash (used in)/generated from Financing Activities	130.0	23.9	*445%*	(29.9)	(61.4)	*(51%)*
Effect of Exchange Rate Changes on Cash & Cash Equivalents	(7.7)	17.3	*n/a*	(1.6)	(11.0)	*(86%)*
Net (Decrease)/Increase in Cash & Cash Equivalents	**27.8**	**63.2**	*(56%)*	**(307.3)**	**(132.0)**	*133%*

First half 2010 net cash used in operating activities totaled USD 139 million versus USD 40 million generated from operating activities a year ago. Working capital was affected by restructuring of supplier arrangements in preparation for the new Retail Law coming into effect on August 1 and the timing of volume discount bonus collections. This resulted in an increase in trade and other accounts receivable of USD 83 million recorded in H1 2010. Other working capital effects on first half 2010 cash flow were mainly the result of first quarter seasonal factors related to the New Year and Orthodox Christmas holidays. These include a USD 75 million decrease in inventories mainly due to de-stocking after the holidays, and a corresponding decrease in trade accounts payable by USD 386 million almost entirely attributable to Q1 payments to suppliers for Q4 2009 pre-holiday deliveries.

Net cash used in investing activities totaled USD 137 million in the first half of 2010 compared to USD 99 million for the same period last year. X5 increased investment in new store openings, preparations for additional stores to be opened later this year and other projects to support X5's growth objectives, including Paterson integration and store conversions, and continued investment in distribution and logistics infrastructure and IT systems platform implementation. Higher CapEx is also attributable to a higher proportion of owned versus leased properties this year.

Net cash used in financing activities in the first half 2010 amounted to USD 30 million as the Company used available cash to reduce outstanding debt in the first quarter while increasing short-term borrowings in the second quarter.

Liquidity Update

USD mln	30-Jun-10	*% in total*	31-Mar-10	*% in total*	31-Dec-09	*% in total*
Total Debt	**1,898.5**		**1,811.2**		**1,944.0**	
Short-Term Debt	1,886.2	*99%*	1,530.9	*85%*	1,656.6	*85%*
Long-Term Debt	12.3	*1%*	280.4	*15%*	287.4	*15%*
Net Debt	**1,794.1**		**1,734.7**		**1,532.3**	
Denominated in USD	1,097.2	*61%*	1,091.7	*63%*	1,162.8	*76%*
Denominated in RUR	696.9	*39%*	643.0	*37%*	369.5	*24%*
FX, EoP	31.20		29.36		30.24	
Net Debt/EBITDA	**2.28x**		**2.31x**		**2.08x**	

As at 30 June 2010, the Company's total debt amounted to RUR 59 billion or USD 1,899 million (at RUR/USD exchange rate of 31.19). Net debt totaled RUR 56 billion or USD 1,794 million.

Although most of X5's debt at 30 June 2010 is classified as short-term (USD 1,886 million or RUR 59 billion), the Company has a guaranteed source of refinancing both for USD 1.1 billion syndicated loan and RUR 9 billion corporate bonds:

- While at 30 June 2010 the USD 1.1 billion syndicated loan maturing in December is classified as short-term, X5 has diverse and guaranteed sources of credit for refinancing it as long-term RUR-denominated debt later this year.

- In July 2010 the Company 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%. X5 bought back 1,342,653 bonds with nominal value of 1,000 RUR, while investors holding 85% of the issue kept their bonds at the new coupon. As a result the outstanding bond issue decreased from RUR 9 billion to RUR 7.7 billion with maturity in July 2014.

- As of 30 June 2010, the Company had access to RUR-denominated credit facilities of approximately RUR 29.6 billion (approximately USD 948 million). Of this amount, approximately RUR 21.9 billion (approximately USD 705 million) represented available undrawn credit lines with major Russian and international banks. The Company also has a commitment from Sberbank for a 5-year ruble-denominated credit line (equivalent of up to USD 1.1 billion) available for refinancing USD 1.1 billion syndicate loan later throughout the year.

Effect of RUR/USD Exchange Rate Movements on Presentation of X5's Results and Their Dynamics

X5's operational currency is the Russian Ruble (RUR), while the Company's presentation currency is the U.S. Dollar (USD). As RUR/USD rate has substantially fluctuated in the past twelve months, comparisons of the Company's financial results either with the corresponding period a year ago (for profit & loss statement) or with the beginning of the year (for balance sheet statement) have been substantially affected by these movements.

- Comparisons of profit & loss figures with respective periods last year reflect a positive translational effect from RUR/USD rate movements, resulting in a difference between year-on-year change in RUR and the respective change in USD of approximately 9% for H1 2010. For reference, to translate its profit & loss figures from RUR to USD for reporting purposes, the Company applied RUR/USD rate of 30.07 for H1 2010 (average for the period) and RUR/USD rate of 33.07 for H1 2009 (average for the period).

- Comparisons of balance sheet figures as at 30 June 2010 to balance sheet figures as at 31 December 2009 reflect a negative translational effect from RUR/USD rate movement, resulting in a difference between change in RUR and the respective change in USD of approximately 3%. For reference, to translate its balance sheet figures from RUR to USD for reporting purposes, the Company applied RUR/USD rate of 31.19 as at 30 June 2010 and RUR/USD rate of 30.24 as at 31 December 2009.

Expected Developments

In line with the Company's growth strategy, X5 continuously reviews potential acquisitions and other asset purchases subject to regulatory requirements. In Q3 2010 X5 filed applications with the Russian Federal Anti-monopoly Service (FAS) to determine the FAS' position on potential transactions to acquire the Kopeika and Ostrov retail chains. These applications do not imply that such transactions will be pursued, agreed and/or completed.

Forward looking statements:
This announcement includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the fact that they do not only relate to historical or current events. Forward-looking statements often use words such as"anticipate", "target", "expect", "estimate", "intend", "expected", "plan", "goal" believe", or other words of similar meaning.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, a number of which are beyond X5 Retail Group N.V.'s control. As a result, actual future results may differ materially from the plans, goals and expectations set out in these forward-looking statements.

Any forward-looking statements made by or on behalf of X5 Retail Group N.V. speak only as at the date of this announcement. Save as required by any applicable laws or regulations, X5 Retail Group N.V. undertakes no obligation publicly to release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.

X5 Retail Group

Condensed Consolidated Interim Financial Statements and Review Report

30 June 2010

Provided under IAS 34 as adopted by the EU

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DIRECTORS' RESPONSIBILITY STATEMENT

This report contains the half-yearly financial report of X5 Retail Group N.V. ("the Company") for the six months ended 30 June 2010 and consists of the half-yearly management report and responsibility statement by the Company's Management Board (the "Management Board") and the condensed consolidated half-yearly 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 June 2010, and the results of its operations, cash flows and changes in shareholders' equity for the six 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.

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

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Lev Khasis
Chief Executive Officer
25 August 2010

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Evgeny Kornilov
Chief Financial Officer
25 August 2010

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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 6-month period ended 30 June 2010, of X5 Retail Group N.V., Amsterdam, which comprises the condensed consolidated interim statement of financial position as at 30 June 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 6-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 June 2010 are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union.

Amsterdam, 25 August 2010
PricewaterhouseCoopers Accountants N.V.

P.C. Dams RA

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

	Note	30 June 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,912,274	2,995,329
Investment property		126,709	133,425
Goodwill	8	753,239	767,523
Intangible assets	7	469,867	496,111
Prepaid leases	7	77,651	84,805
Investment in associates		-	5,609
Other non-current assets		1,462	1,304
Deferred tax assets		150,233	151,786
		4,491,435	4,635,892
Current assets			
Inventories of goods for resale		526,047	612,722
Loans originated		1,908	2,848
Current portion of non-current prepaid lease	7	12,596	13,705
Trade and other accounts receivable		267,993	309,571
Current income tax receivable		40,145	18,663
VAT and other taxes recoverable		163,887	174,762
Cash and cash equivalents		104,421	411,681
		1,116,997	1,543,952
TOTAL ASSETS		**5,608,432**	**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		(617,813)	(559,576)
Accumulated profit		303,357	199,292
Hedging reserve		(3,063)	(10,108)
Employee stock plan	13	967	-
Non-controlling interest	5	1,664	-
Total equity		**1,827,968**	**1,772,464**
Non-current liabilities			
Long-term borrowings	9	12,280	287,378
Long-term finance lease payable		3,258	4,586
Deferred tax liabilities		203,998	207,689
Long-term deferred revenue		737	1,839
Share-based payments liability	13	18,781	25,986
		239,054	527,478
Current liabilities			
Trade accounts payable		1,030,782	1,556,325
Short-term borrowings	9	1,886,211	1,656,622
Share-based payments liability	13	62,334	59,559
Derivative financial liabilities		3,063	10,108
Short-term finance lease payables		1,569	1,950
Interest accrued		17,847	8,863
Short-term deferred revenue		13,521	18,979
Current income tax payable		25,321	33,790
Provisions and other liabilities		500,762	533,706
		3,541,410	3,879,902
Total liabilities		**3,780,464**	**4,407,380**
TOTAL EQUITY AND LIABILITIES		**5,608,432**	**6,179,844**

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Lev Khasis
Chief Executive Officer
25 August 2010

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Evgeny Kornilov
Chief Financial Officer
25 August 2010

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
Revenue		**5,183,642**	**3,978,108**
Cost of sales		(3,951,728)	(2,999,122)
Gross profit		**1,231,914**	**978,986**
Selling, general and administrative expenses		(1,033,416)	(779,215)
Lease/sublease and other income		59,650	46,253
Operating profit		**258,148**	**246,024**
Finance costs	12	(66,475)	(77,418)
Finance income	12	1,411	1,446
Share of income/(loss) of associates		443	(2,500)
Net foreign exchange result		(35,830)	(77,790)
Profit before tax		**157,697**	**89,762**
Income tax expense	14	(53,912)	(41,510)
Profit for the period		**103,785**	**48,252**
Profit for the period attributable to:			
Equity holders of the parent		104,065	48,252
Non-controlling interest	5	(280)	-
Basic earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)		**1.53**	**0.71**
Diluted earnings per share for profit attributable to the equity holders of the parent (expressed in USD per share)		**1.53**	**0.71**

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25 August 2010

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Chief Financial Officer
25 August 2010

	Six months ended 30 June 2010	Six months ended 30 June 2009
Profit for the period	**103,785**	**48,252**
Other comprehensive income/(loss)		
Exchange differences on translation from functional to presentation currency	(58,237)	(98,395)
Cash flow hedges	7,045	1,385
Other comprehensive loss for the period	**(51,192)**	**(97,010)**
Total comprehensive income/(loss) for the period	**52,593**	**(48,758)**
Total comprehensive income/(loss) for the period attributable to:		
Equity holders of the parent	52,593	(48,758)

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Lev Khasis
Chief Executive Officer
25 August 2010

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Evgeny Kornilov
Chief Financial Officer
25 August 2010

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
Profit before tax		**157,697**	**89,762**
Adjustments for:			
Depreciation and amortisation	7	140,616	100,968
Loss on disposal of property, plant and equipment		3,494	504
Finance costs, net	12	65,064	75,972
Impairment of trade and other accounts receivable		4,299	10,339
Share-based payments expense	13	33,749	5,236
Amortisation of deferred expenses		9,018	4,610
Net foreign exchange loss		35,830	77,790
(Income)/Loss from associate		(443)	2,500
Other non-cash items		(492)	12,444
Net cash from operating activities before changes in working capital		**448,832**	**380,125**
Increase in trade and other accounts receivable		(83,095)	(7,859)
Decrease in inventories		75,408	7,834
Decrease in trade accounts payable		(385,557)	(203,255)
(Decrease)/Increase in other accounts payable and deferred revenue		(55,670)	20,406
Net cash (used in)/generated from operations		**(82)**	**197,251**
Interest paid		(50,630)	(65,700)
Interest received		1,114	2,204
Income tax paid		(89,395)	(94,278)
Net cash flows (used in)/generated from operating activities		**(138,993)**	**39,477**
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(114,728)	(76,273)
Proceeds from sale of property, plant and equipment		330	1,457
Non-current prepaid lease		(4,127)	(3,499)
Investments in subsidiaries	5	(5,262)	(12,710)
Purchase of intangible assets	7	(13,041)	(7,936)
Net cash used in investing activities		**(136,828)**	**(98,961)**
Cash flows from financing activities:			
Proceeds from short-term loans		252,811	139,938
Repayment of short-term loans		(280,102)	(424,849)
Proceeds from long-term bonds		-	241,881
Repayment of long-term loans		-	(15,675)
Acquisition of derivative financial instruments		-	(2,410)
Principal payments on finance lease obligations		(2,584)	(328)
Net cash used in financing activities		**(29,875)**	**(61,443)**
Effect of exchange rate changes on cash and cash equivalents		(1,564)	(11,048)
Net decrease in cash and cash equivalents		**(307,260)**	**(131,975)**
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		(307,260)	(131,975)
Cash and cash equivalents at the end of the period		**104,421**	**144,862**

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25 August 2010

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25 August 2010

The accompanying Notes on pages 19 to 34 are an integral part of these condensed consolidated interim financial statements.

	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	-	-	-	1,385	-	(98,395)	-	(97,010)	-	(97,010)
Profit for the period	-	-	-	-	-	-	48,252	48,252	-	48,252
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**1,385**	**-**	**(98,395)**	**48,252**	**(48,758)**	**-**	**(48,758)**
Balance as at 30 June 2009	**67,813,947**	**93,712**	**2,049,144**	**(16,795)**	**-**	**(618,579)**	**82,193**	**1,589,675**	**-**	**1,589,675**
Other comprehensive income for the period	-	-	-	6,687	-	59,003	-	65,690	-	65,690
Profit for the period	-	-	-	-	-	-	117,099	117,099	-	117,099
Total comprehensive income for the period	**-**	**-**	**-**	**6,687**	**-**	**59,003**	**117,099**	**182,789**	**-**	**182,789**
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	-	-	-	7,045	-	(58,237)	-	(51,192)		(51,192)
Profit/(loss) for the period	-	-	-	-	-	-	104,065	104,065	(280)	103,785
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**7,045**	**-**	**(58,237)**	**104,065**	**52,873**	**(280)**	**52,593**
Acquisition of subsidiaries (Note 5)	-	-	-	-	-	-	-	-	1,944	1,944
Value of employee services	-	-	-	-	967	-	-	967	-	967
Balance as at 30 June 2010	**67,813,947**	**93,712**	**2,049,144**	**(3,063)**	**967**	**(617,813)**	**303,357**	**1,826,304**	**1,664**	**1,827,968**

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Lev Khasis
Chief Executive Officer
25 August 2010

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Evgeny Kornilov
Chief Financial Officer
25 August 2010

1 PRINCIPLE ACTIVITIES AND GROUP STRUCTURE

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

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

The main activity of the Group is the development and operation of grocery retail stores. As at 30 June 2010 the Group operated a retail chain of 1,514 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 1,135 soft discount stores under “Pyaterochka” brand, 275 supermarkets under “Perekrestok” brand, 62 hypermarkets under “Karusel” brand and 42 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 June 2010, the Group’s franchisees operated 610 stores (31 December 2009: 620 stores) across Russia.

The Group is a member of the Alfa Group Consortium. As of 30 June 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 June 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 June 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 six months ended 30 June 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 June 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 31.1954 (31 December 2009: USD 1 = RUR 30.2442). Average rate for the six months ended 30 June 2010 was USD 1 = RUR 30.0676 (six months 2009: USD 1 = RUR 33.0679).

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 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. 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 will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its 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 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. 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 will 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 will be 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.

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 June 2010 is as follows:

	Six months ended 30 June 2010	**Six months ended 30 June 2009**
Retail sales	5,176,001	3,963,096
Other revenue	7,641	15,012
Revenue	**5,183,642**	**3,978,108**
EBITDA	**398,764**	**346,992**
Capital expenditure	124,184	54,749

	30 June 2010	**31 December 2009**
Total assets	**5,608,432**	**6,179,844**
Total liabilities	**3,780,464**	**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:

	Six months ended 30 June 2010	**Six months ended 30 June 2009**
EBITDA	**398,764**	**346,992**
Depreciation and amortization	(140,616)	(100,968)
Operating profit	**258,148**	**246,024**
Finance cost, net	(65,064)	(75,972)
Net foreign exchange result	(35,830)	(77,790)
Share of income/(loss) of associates	443	(2,500)
Profit before income tax	**157,697**	**89,762**
Income tax expense	(53,912)	(41,510)
Profit for the period	**103,785**	**48,252**

5 ACQUISITION OF SUBSIDIARIES

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.

In the six months ended 30 June 2010 the acquired business of Express Retail contributed revenue of USD 20,210 and a net loss of USD 763 from the date of acquisition. If the acquisition of Express Retail had occurred on 1 January 2010, the Group’s revenue for the six months ended 30 June 2010 would have been USD 5,201,716 and the Group’s profit for the six months ended 30 June 2010 would have been USD 104,325.

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	758	758
Inventories of goods for resale	5,261	4,976
Trade and other accounts receivable	10,856	3,227
Intangible assets	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 statement of comprehensive income.

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.

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 June 2010 are provided below. The ultimate controlling party is disclosed in Note 1.

6 RELATED PARTY TRANSACTIONS (continued)

Alfa Group

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

	Relationship	Six months ended 30 June 2010	Six months ended 30 June 2009
CTF Holdings Ltd.	Ultimate parent company		
Management services received		622	760
Recharged expenses		311	-
Alfa-Bank	Under common control		
Interest expense on loan received		2,866	16,192
Interest income		718	461
Bank charges		618	475
Rent revenue		459	131
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Communication services received		2,224	1,644
Commission for mobile phone payments processing rendered by the Group to VimpelCom		439	310
Rent revenue		59	35
AlfaInsurance	Under common control		
Insurance expenses		98	48
Megafon	Under common control		
Commission for mobile phone payments processing rendered by the Group to Megafon		292	12
Rent revenue		145	73

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

	Relationship	30 June 2010	31 December 2009
CTF Holding Ltd.	Ultimate parent company		
Other accounts payable		634	115
Alfa-Bank	Under common control		
Cash and cash equivalents		18,013	208,610
Receivable from related party		370	277
Short-term loans payable		135,985	75,000
Other accounts payable		306	112
AlfaInsurance	Under common control		
Receivable from related party		105	76
Other accounts payable		-	10
VimpelCom	Under significant influence of CTF Holdings Ltd.		
Receivable from related party		362	512
Other accounts payable		1,176	536
Megafon	Under common control		
Receivable from related party		107	-
Other accounts payable		237	-

6 RELATED PARTY TRANSACTIONS (continued)

Alfa-Bank

The Group has an open credit line with Alfa-Bank with a maximum limit of RUR 9,100 million or USD 291,710 (31 December 2009: RUR 9,100 million or USD 300,884). At 30 June 2010 the Group's liability under this credit line amounted to RUR 4,242 million or USD 135,985 with interest rates 5,2-5,48% p.a. (31 December 2009: USD 75,000) and available credit line of USD 155,725 (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 six months ended 30 June 2010 members of the Management Board and Supervisory Board of the Group were entitled to total short-term compensation of USD 4,219 (six months ended 30 June 2009: USD 3,514), including accrued annual target bonuses of USD 1,676 (six months ended 30 June 2009: USD 1,428) payable on an annual basis subject to meeting annual performance targets. As at 30 June 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 23,982 as at 30 June 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	124,184	13,373	54,749	17,701
Assets from acquisitions (Note 5)	3,328	5,692	-	-
Disposals	(15,637)	(9,917)	(4,770)	(1,664)
Translation movement	(112,287)	(19,678)	(202,980)	(35,615)
Balance as at 30 June	**3,554,849**	**622,793**	**3,226,122**	**578,805**
Accumulated Depreciation				
Balance as at 1 January	(559,932)	(137,212)	(340,079)	(99,059)
Depreciation charge	(107,208)	(30,631)	(80,096)	(18,550)
Disposals	3,840	9,833	2,809	1,664
Translation movement	20,725	5,084	16,292	4,954
Balance as at 30 June	**(642,575)**	**(152,926)**	**(401,074)**	**(110,991)**
Net Book Value				
Balance as at 1 January	**2,995,329**	**496,111**	**3,039,044**	**499,324**
Balance as at 30 June	**2,912,274**	**469,867**	**2,825,048**	**467,814**

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 90,247 (31 December 2009: USD 98,510).

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)	9,676	19,154
Translation to presentation currency	(90,814)	(171,930)
Gross book value at 30 June	**2,878,942**	**2,658,803**
Accumulated impairment losses:		
Accumulated impairment losses at 1 January	(2,192,557)	(2,257,020)
Translation to presentation currency	66,854	137,771
Accumulated impairment losses at 30 June	(2,125,703)	(2,119,249)
Carrying amount at 30 June	**753,239**	**539,554**
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 six months ended 30 June 2010. The Group will perform annual impairment test of goodwill at 31 December 2010.

9 BORROWINGS

		30 June 2010			31 December 2009		
	Interest rate, % p.a.	Current During 1 year	Non-current In 1 to 3 years	Total	Current During 1 year	Non-current In 1 to 3 years	Total
USD Syndicated loan	Libor+1.5%	1,096,612	-	1,096,612	1,093,135	-	1,093,135
USD Bilateral Loans	3.6%-3.86%	-	-	-	75,000	-	75,000
RUR Bonds	7.6%-18.46%	535,173	11	535,184	297,390	262,403	559,793
RUR Bilateral Loans	Mosprime +3.1%	8,941	12,269	21,210	57,874	24,972	82,846
RUR Bilateral Loans	4.1%-5.7%	243,476	-	243,476	133,223	3	133,226
USD Other Loans	12%	2,009	-	2,009	-	-	-
Total borrowings		**1,886,211**	**12,280**	**1,898,491**	**1,656,622**	**287,378**	**1,944,000**

In December 2007 the Group raised a 3 year syndicated loan facility of USD 1,100,000 from a consortium of banks. At 30 June 2010 the margin was 1.5% per annum over USD LIBOR. The Group has pledged as collateral for the syndicated loan 100% of the voting shares in its subsidiaries, including OOO “Agrotorg”, OOO “Agroaspekt”, Perekrestok Holdings Ltd., Alpegru Retail Properties Ltd., ZAO “TH “Perekrestok”, OOO “Perekrestok-2000” and ZAO “X5 Nedvizhimost”. In January 2010 X5 Retail Group and Sberbank signed documentation on "forward-start" committed credit facility for refinancing of USD 1,100,000 syndicated loan with December 2010 maturity in the form of 5-year rouble denominated committed credit facility up to USD 1,100,000 (in RUR equivalent, based on the exchange rate of the CBRF as at the draw down date). The credit facility may be utilized in several tranches with varying maturities.

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 1,342,653 bonds with nominal value of 1,000 RUR. The outstanding amount of the corporate bonds decreased from 9,000,000 to 7,657,347 becoming long-term with maturity in July 2014 (Note 18).

9 BORROWINGS (continued)

All borrowings at 30 June 2010 are shown net of related transaction costs of USD 13,309 which are amortized over the term of loans using the effective interest method (31 December 2009: USD 10,056).

In accordance with the syndicated loan facility agreement the Group maintains an optimal capital structure by tracking certain capital requirements: the maximum level of Debt/EBITDA (3.75), minimum level of EBITDA/Interest expense (3), minimum level of EBITDAR/Fixed costs (2.25) and required level of capital expenditure.

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 June 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 six months ended 30 June 2010 are the following:

- Operating lease expenses, which include USD 173,794 of minimum lease payments (six months ended 30 June 2009: USD 112,340) and contingent rents of USD 12,887 (six months ended 30 June 2009: USD 8,937).

12 FINANCE INCOME AND COSTS

	Six months ended 30 June 2010	**Six months ended 30 June 2009**
Interest expense	59,112	72,379
Interest income	(1,411)	(1,446)
Other finance costs, net	7,363	5,039
	65,064	**75,972**

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.

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

In total, during the six months ended 30 June 2010 the Group recognized expenses related to the ESOP in the amount of USD 32,167 (expenses during six months ended 30 June 2009: USD 5,236). At 30 June 2010 the share-based payments liability amounted to USD 81,115 (31 December 2009: USD 85,545). The equity component was effectively zero at 30 June 2010 (31 December 2009: zero). The total intrinsic value of vested share options amounted to USD 37,207 as at 30 June 2010 (31 December 2009: USD 2,538).

13 SHARE-BASED PAYMENTS (continued)

Employee stock option program (continued)

Details of the share options outstanding during the six months ended 30 June 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	(2,409,000)	19.4
Cancelled during the period	(41,250)	25.7
Outstanding at the end of the period	**5,136,700**	**26.7**
Exercisable at 30 June 2010	5,136,700	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 June 2010 were as follows:

Expected GDR price	36.13
Expected volatility	57%
Risk-free interest rate	3%
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 six months ended 30 June 2010 the Group recognized expenses related to the RSU plan in the amount of USD 1,582. At 30 June 2010 the equity component was USD 967. 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 six months ended 30 June 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**

14 INCOME TAX

	Six months ended 30 June 2010	Six months ended 30 June 2009
Current income tax charge	(50,680)	(68,810)
Deferred income tax (expense)/benefit	(3,232)	27,300
Income tax expense	**(53,912)**	**(41,510)**

15 SEASONALITY

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

- Volume of repair and maintenance work increases in the May-September period as the ambient temperature is conductive to this activity. In addition, 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 substantial amount of foreign currency denominated short-term borrowings, and is thus exposed to foreign exchange risk (Note 9).

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

Interest rates risk

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

The syndicated loan for USD 1,100,000 was hedged against interest rate risk in 2008, 2009 with coverage till the end of 2010 (Note 9). The Group regarded the interest rate swaps as hedging instruments and applied hedge accounting. The total fair value of the interest rate swaps of USD 3,063 was recorded through equity.

Liquidity risk

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

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

30 June 2010

	During 1 year	In 1 to 3 years
Borrowings	1,959,316	13,600
Trade accounts payable	1,030,782	-
Gross finance lease liabilities	1,569	3,258
Derivative financial liabilities	3,063	-
Other finance liabilities	271,790	-
	3,266,520	**16,858**

16 FINANCIAL RISKS MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2009

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

At 30 June 2010 the Group has negative working capital of USD 2,424,413 (31 December 2009: USD 2,335,950) including short-term borrowings of USD 1,886,211 (31 December 2009: USD 1,656,622).

At 30 June 2010 the Group had available bank credit lines of USD 1,804,844 (31 December 2009: USD 555,170).

At 30 June 2010 the Group short-term borrowings mainly comprised of a syndicated loan of USD 1,096,612 and corporate bonds of USD 535,173.

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 1,342,653 bonds with nominal value of 1,000 RUR. The outstanding amount of the corporate bonds decreased from 9,000,000 to 7,657,347 becoming long-term with maturity in July 2014.

In January 2010 the Group and Sberbank signed documentation with respect to a "forward-start" committed credit facility for refinancing of USD 1,100,000 syndicated loan with December 2010 maturity.

Sberbank’s facility takes the form of a 5-year ruble-denominated committed credit facility of up to USD 1,100,000 in RUR equivalent (based on the exchange rate of the Central Bank of Russia as at draw-down date). The credit facility can be utilized in several tranches with varying maturities. Interest rate will be based on the maturity of each particular tranche.

While at 30 June 2010 syndicated loan maturing in December 2010 is classified as short-term, the Group has diverse and guaranteed sources of credit for refinancing it as long-term RUR-denominated debt later this year.

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 June 2010, the Group operated 935 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. 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.

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 June 2010 (present value)	31 December 2009 (present value)	30 June 2010 (nominal value)	31 December 2009 (nominal value)
During 1 year	198,191	199,983	213,274	215,389
In 2 to 5 years	377,265	351,996	560,706	525,354
Thereafter	153,373	139,307	516,839	474,981
	728,829	**691,286**	**1,290,819**	**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 June 2010 the Group contracted for capital expenditure of USD 94,403 (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 135,077 at 30 June 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**
Release of provision	(7,835)
Translation movement	(4,175)
Balance at 30 June 2010	**135,077**

18 SUBSEQUENT EVENTS

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 1,342,653 bonds with nominal value of 1,000 RUR.